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THE VARIETIES OF ECONOMICS | VOLUME TWO

The Varieties of Economics

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AND MANIFESTOES

in two volumes

Volume Two

Edited and with an Introduction by ROBERT LEKACHMAN

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ROBERT LEKACHMAN was born in New York City on May 12, 1920. He took his B.A. and Ph.D. degrees at Columbia University and has been teaching since 1947, most recently at Barnard College, where he is Associate Professor of Economics. Mr. Lekachman edited *National Policy for Economic Welfare* and is the author of *A History of Economic Ideas* and of numerous articles in periodicals, among them *Commentary, New Republic, Political Science Quarterly, New Leader,* and *Harper's.*

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In memory of my teacher

in the History of Economic Ideas

ROBERT L. CAREY

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PREFACE

The two volumes of this book claim as their single major objective the illustration of the proposition that the economic view of life has had a rich and varied history. Although not even an economist would presume to claim that making a living and talking about making a living have been the only themes of human action and reflection, it is fair to say that no society has been able to ignore its material foundations either in action or theory. That concern has had diversified expression in the formal, full-dress exposition by the professional economist, the polemical pamphlet frequently by an interested party, the document of state, the statutes of the land, and even the novel and the satire. This is to say that economics has been and still is a matter of applications, of attempts to make sense out of the pressing public problems of the age, of efforts to transform or at least reform society, and of anxious reconciliations of material and ethical objectives. All of these, of course, in addition to the more familiar characterization of economics as primarily a particular mode of intellectual investigation, wedded to an identifiable set of statistical, historical, and analytical tools.

In an effort to exemplify these manifestations of the economic spirit, I have divided the seventy selections that are to be found in these volumes into seven major topics. The order within each topic is roughly chronological. A glance at the Table of Contents reveals one of the consequences of this plan: the varying emphasis and message economics has had over time. Thus, the first four topics—Economics and Salvation, The Heroic Statesman, The Age of Laissez-Faire, and The Economics of Utopia—inevitably contain much nineteenth- and twentieth-century matter, particularly in the instance of the third of these titles. But with equal appropriateness, the first, second, and fourth of these headings also include a great deal that testifies to intense economic discussion even when the tools of economics as we know them now were in primitive condition. These four topics comprise Volume One. Volume Two, on the other hand, devotes itself, with three exceptions only, to nineteenth- and twentieth-century

selections. Why the difference? The answer is to be found in the circumstance that, unlike history, philosophy, and theology, economics as a formal intellectual discipline is a comparative late-comer. Thus the long section on economic techniques is almost exclusively filled with examples less than a century old, because these techniques themselves are young. Reform and revolution, good nineteenth- and twentieth-century preoccupations, have been closely affiliated with the growing intellectual power of the weapons of political economy.

I try to tell something more of this story in the Introduction (which appears only in Volume One). Sections 1 and 2 of the Introduction concentrate upon the nineteenth-century advance to glory of political economy. From that vantage point, I take occasional glances back to the past and forward to the present. Section 2 comments as well on economic technique, the complex relation of economic theory and economic problem, and the application of economics to social and political issues.

Section 3 of the Introduction starts with a fuller explanation of why these selections are organized in the manner before us. It continues with some pages of introduction to each of the seven major topics.

As for the selections themselves, I have sought to make each one self-contained. I have refrained from the violence of internal deletion as well as from combining passages from different portions of a given work. There is a brief introduction to each passage which places each selection within a context of time and place and identifies each author. In making my selections, I have tried wherever possible to choose the entertaining rather than the dull, the short rather than the long, and the graceful rather than the clumsy. Always, as an economist ought to say, other things equal.

It is a pleasure to express my gratitude to Arthur A. Cohen, who encouraged me to undertake this project, to Aaron Asher, who smoothed its progress from manuscript to book, to Jo Ann Lieb, who amiably copy-edited all the material, and to Mary Louise Vincent, who cheerfully handled the wearisome details of securing the essential permissions to include extracts. As publishers, all four fulfill an author's largest hopes. I am also indebted to Mrs. Stephanie Kaplowitt, who admirably typed the entire manuscript, in spite of a decided preference for literary over economic subjects. I hope that she did find occasional examples of the alliance between literature and economics which can exist.

ROBERT LEKACHMAN

Part V

ECONOMIC REFORM

The Chartists

In the 1830's and the 1840's the major outlet for discontented workmen was Chartism. The Owenite movement had collapsed and a strong union movement was yet to begin. The "People's Charter," drawn up by William Lovett (1800-77) and Francis Place (1771-1854), celebrated as the radical tailor of Westminster, was offered to Parliament in 1839, 1842, and 1848. Each time it was rejected.*

Chartism was feared and dreaded by the governing groups in England. But it is difficult at this remove in time to see what was so alarming about the movement. The celebrated six demands included equal representation in Parliament, universal suffrage, annual Parliaments, abolition of property qualification for election to the House of Commons, the secret ballot, and annual payment of £1600 to members. In effect the Chartists demanded for the working class what members of the middle class had won in the Reform Act of 1832.

As a movement Chartism disintegrated into quarreling groups some of which wished to continue political pressure and others of which desired to pursue strictly economic objectives. The selections that follow exemplify Chartism in both its political and its economic aspects. The "National Petition" was written by R. K. Douglas, editor of the Birmingham Journal. *Both passages are to be found in* Introduction to Contemporary Civilization in the West (*New York: Columbia University Press, 1954*), *II*, 432-9.

* See Graham Wallas's excellent *Life of Francis Place.*

Chartism

PETITION AGREED TO AT THE "CROWN AND ANCHOR" MEETING, FEBRUARY 28TH, 1837

To the Honourable the Commons of Great Britain and Ireland. The Petition of the undersigned Members of the Working Men's Association and others sheweth—

That the only *rational use* of the institutions and laws of society is justly to protect, encourage, and support all that can be made to contribute *to the happiness of all the people.*

That, as the object to be obtained is mutual benefit, so ought the enactment of laws to be by mutual consent.

That obedience to laws can only be *justly enforced* on the certainty that those who are called on to obey them have had, either personally or by their representatives, the power to enact, amend, or repeal them.

That all those who are excluded from this share of political power are not justly included within the operation of the laws; to them the laws are only despotic enactments, and the legislative assembly from whom they emanate can only be considered parties to an unholy compact, devising plans and schemes for taxing and subjecting the many.

That the universal political right of every human being is superior and stands apart from all customs, forms, or ancient usage; a fundamental right not in the power of man to confer, or justly to deprive him of.

That to take away this sacred right from the *person* and to vest it in *property,* is a wilful perversion of justice and common sense, as the creation and security of property *are the consequences of society* —the great object of which is human happiness.

That any constitution or code of laws, formed in violation of men's political and social rights, are not rendered sacred by time nor sanctified by custom.

That the ignorance which originated, or permits their operation, forms no excuse for perpetuating the injustice; nor can aught but force or fraud sustain them, when any considerable number of people perceive and feel their degradation.

That the intent and object of your petitioners are to present such facts before your Honorable House as will serve to convince you and the country at large that you do not represent the people of these realms; and to appeal to your sense of right and justice as well as to every principle of honour, for directly making such legislative enact-

ments as shall cause the mass of the people to be represented; with the view of securing *the greatest amount of happiness to all classes of society.*

Your Petitioners find, by returns ordered by your Honourable House, that the whole people of Great Britain and Ireland are about 24 millions, and that the males above 21 years of age are 6,023,752, who, in the opinion of your petitioners, are justly entitled to the elective right.

That according to S. Wortley's return (ordered by your Honourable House) the number of registered electors, who have the power to vote for members of Parliament, are only 839,519, and of this number only 8½ in 12 give their votes.

That on an analysis of the constituency of the United Kingdom, your petitioners find that 331 members (being a *majority* of your Honourable House) are returned by *one hundred and fifty-one thousand four hundred and ninety-two* registered electors!

That comparing the whole of the male population above the age of 21 with the 151,492 electors, it appears that 1-40 of them, or 1-160 of the entire population, have the power of passing all the laws in your Honourable House.

And your petitioners further find on investigation, that this majority of 331 members are composed of 163 Tories or Conservatives, 134 Whigs and Liberals, and only 34 who call themselves Radicals; and out of this limited number it is questionable whether 10 can be found who are truly the representatives of the wants and wishes of the producing classes.

Your petitioners also find that 15 members of your Honourable House are returned by electors under 200; 55 under 300; 90 under 400; 121 under 500: 150 under 600; 196 under 700; 214 under 800; 240 under 900; and 256 under 1,000; and that many of these constituencies are divided between two members.

They also find that your Honourable House, which is said to be exclusively the people's or the Commons House, contains *two hundred and five persons who are immediately or remotely related to the Peers of the Realm.*

Also that your Honourable House contains 1 marquess, 7 earls, 19 viscounts, 32 lords, 25 right honourables, 52 honourables, 63 baronets, 13 knights, 3 admirals, 7 lord-lieutenants, 42 deputy and vice-lieutenants, 1 general, 5 lieutenant-generals, 9 major-generals, 32 colonels, 33 lieutenant-colonels, 10 majors, 49 captains in army and navy, 10 lieutenants, 2 cornets, 58 barristers, 3 solicitors, 40 bankers, 33 East India proprietors, 13 West India proprietors, 52 place-

men, 114 patrons of church livings having the patronage of 274 livings between them; the names of whom your petitioners can furnish at the request of your Honourable House.

Your petitioners therefore respectfully submit to your Honourable House that these facts afford abundant proofs that you do not represent the numbers or the interests of the millions; but that the persons composing it have interests for the most part foreign or directly opposed to the true interests of the great body of the people.

That perceiving the tremendous power you possess over the lives, liberty and labour of the unrepresented millions—perceiving the *military* and *civil forces* at your command—*the revenue* at your disposal—the *relief of the poor* in your hands—the *public press* in your power, by enactments expressly excluding the working classes alone—moreover, the power of delegating to others the whole control of the *monetary arrangements* of the Kingdom, by which the labouring classes may be silently plundered or suddenly suspended from employment—seeing all these elements of power wielded by your Honourable House as at present constituted, and fearing the consequences that may result if a thorough reform is not speedily had recourse to, your petitioners earnestly pray your Honourable House *to enact the following as the law of these realms,* with such other essential details as your Honourable House shall deem necessary:

A Law for Equally Representing the People of Great Britain and Ireland

EQUAL REPRESENTATION That the United Kingdom be divided into 200 electoral districts; dividing, as nearly as possible, an equal number of inhabitants; and that each district do send a representative to Parliament.

UNIVERSAL SUFFRAGE That every person producing proof of his being 21 years of age, to the clerk of the parish in which he has resided six months, shall be entitled to have his name registered as a voter. That the time for registering in each year be from the 1st of January to the 1st of March.

ANNUAL PARLIAMENTS That a general election do take place on the 24th of June in each year, and that each vacancy be filled up a fortnight after it occurs. That the hours for voting be from six o'clock in the morning till six o'clock in the evening.

NO PROPERTY QUALIFICATIONS That there shall be no property qualification for members; but on a requisition, signed by 200 voters, in favour of any candidate being presented to the clerk of the

parish in which they reside, such candidate shall be put in nomination. And the list of all the candidates nominated throughout the district shall be stuck on the church door in every parish, to enable voters to judge of their qualification.

VOTE BY BALLOT That each voter must vote in the parish in which he resides. That each parish provide as many balloting boxes as there are candidates proposed in the district; and that a temporary place be fitted up in each parish church for the purpose of *secret voting*. And, on the day of election, as each voter passes orderly on to the ballot, he shall have given to him, by the officer in attendance, a balloting ball, which he shall drop into the box of his favourite candidate. At the close of the day the votes shall be counted, by the proper officers, and the numbers stuck on the church doors. The following day the clerk of the district and two examiners shall collect the votes of all the parishes throughout the district, and cause the name of the successful candidate to be posted in every parish of the district.

SITTINGS AND PAYMENTS TO MEMBERS That the members do take their seats in Parliament on the first Monday in October next after their election, and continue their sittings every day (Sundays excepted) till the business of the sitting is terminated, but not later than the 1st of September. They shall meet every day (during the Session) for business at 10 o'clock in the morning, and adjourn at 4. And every member shall be paid quarterly out of the public treasury £400 a year. That all electoral officers shall be elected by universal suffrage.

By passing the foregoing as the law of the land, you will confer a great blessing on the people of England; and your petitioners, as in duty bound, will ever pray.

NATIONAL PETITION

Unto the Honourable the Commons of the United Kingdom of Great Britain and Ireland in Parliament assembled, the Petition of the undersigned, their suffering countrymen,

Humbly Sheweth,

That we, your petitioners, dwell in a land whose merchants are noted for enterprise, whose manufacturers are very skilful, and whose workmen are proverbial for their industry.

The land itself is goodly, the soil rich, and the temperature wholesome; it is abundantly furnished with the materials of commerce and trade; it has numerous and convenient harbours; in facility of internal communication it exceeds all others.

For three-and-twenty years we have enjoyed a profound peace.

Yet, with all these elements of national prosperity, and with every disposition and capacity to take advantage of them, we find ourselves overwhelmed with public and private suffering.

We are bowed down under a load of taxes; which, notwithstanding, fall greatly short of the wants of our rulers; our traders are trembling on the verge of bankruptcy; our workmen are starving; capital brings no profit and labour no remuneration; the home of the artificer is desolate, and the warehouse of the pawnbroker is full; the workhouse is crowded, and the manufactory is deserted.

We have looked on every side, we have searched diligently in order to find out the causes of a distress so sore and so long continued.

We can discover none in nature, or in Providence.

Heaven has dealt graciously by the people; but the foolishness of our rulers has made the goodness of God of no effect.

The energies of a mighty kingdom have been wasted in building up the power of selfish and ignorant men, and its resources squandered for their aggrandisement.

The good of a party has been advanced to the sacrifice of the good of the nation; the few have governed for the interest of the few, while the interest of the many has been neglected, or insolently and tyrannously trampled upon.

It was the fond expectation of the people that a remedy for the greater part, if not for the whole, of their grievances, would be found in the Reform Act of 1832.

They were taught to regard that Act as a wise means to a worthy end; as the machinery of an improved legislation, when the will of the masses would be at length potential.

They have been bitterly and basely deceived.

The fruit which looked so fair to the eye has turned to dust and ashes when gathered.

The Reform Act has effected a transfer of power from one domineering faction to another, and left the people as helpless as before.

Our slavery has been exchanged for an apprenticeship to liberty, which has aggravated the painful feeling of our social degradation, by adding to it the sickening of still deferred hope.

We come before your Honourable House to tell you, with all humility, that this state of things must not be permitted to continue; that it cannot long continue without very seriously endangering the stability of the throne and the peace of the kingdom; and that if by

God's help and all lawful and constitutional appliances, an end can be put to it, we are fully resolved that it shall speedily come to an end.

We tell your Honourable House that the capital of the master must no longer be deprived of its due reward; that the laws which make food dear, and those which by making money scarce, make labour cheap, must be abolished; that taxation must be made to fall on property, not on industry; that the good of the many, as it is the only legitimate end, so must it be the sole study of the Government.

As a preliminary essential to these and other requisite changes; as means by which alone the interests of the people can be effectually vindicated and secured, we demand that those interests be confided to the keeping of the people.

When the State calls for defenders, when it calls for money, no consideration of poverty or ignorance can be pleaded in refusal or delay of the call.

Required as we are, universally, to support and obey the laws, nature and reason entitle us to demand, that in the making of the laws, the universal voice shall be implicitly listened to.

We perform the duties of freemen; we must have the privileges of freemen.

WE DEMAND UNIVERSAL SUFFRAGE.

The suffrage to be exempt from the corruption of the wealthy, and the violence of the powerful, must be secret.

The assertion of our right necessarily involves the power of its uncontrolled exercise.

WE DEMAND THE BALLOT.

The connection between the representatives and the people, to be beneficial must be intimate.

The legislative and constituent powers, for correction and for instruction, ought to be brought into frequent contact.

Errors, which are comparatively light when susceptible of a speedy popular remedy, may produce the most disastrous effects when permitted to grow inveterate through years of compulsory endurance.

To public safety as well as public confidence, frequent elections are essential.

WE DEMAND ANNUAL PARLIAMENTS.

With power to choose, and freedom in choosing, the range of our choice must be unrestricted.

We are compelled, by the existing laws, to take for our representatives, men who are incapable of appreciating our difficulties, or who have little sympathy with them; merchants who have retired from

trade, and no longer feel its harassings; proprietors of land who are alike ignorant of its evils and their cure; lawyers, by whom the honours of the senate are sought after only as means of obtaining notice in the courts.

The labours of a representative, who is sedulous in the discharge of his duty, are numerous and burdensome.

It is neither just, nor reasonable, nor safe, that they should continue to be gratuitously rendered.

We demand that in the future election of members of your Honourable House, the approbation of the constituency shall be the sole qualification; and that to every representative so chosen shall be assigned, out of the public taxes, a fair and adequate remuneration for the time which he is called upon to devote to the public service.

Finally, we would most earnestly impress on your Honourable House, that this petition has not been dictated by any idle love of change; that it springs out of no inconsiderate attachment to fanciful theories, but that it is the result of much and long deliberation, and of convictions, which the events of each succeeding year tend more and more to strengthen.

The management of this mighty kingdom has hitherto been a subject for contending factions to try their selfish experiments upon.

We have felt the consequences in our sorrowful experience—short glimmerings of uncertain enjoyment swallowed up by long and dark seasons of suffering.

If the self-government of the people should not remove their distresses, it will at least remove their repining.

Universal suffrage will, and it alone can, bring true and lasting peace to the nation; we firmly believe that it will also bring prosperity.

May it therefore please your Honourable House to take this our petition into your most serious consideration; and to use your utmost endeavours, by all constitutional means, to have a law passed, granting to every male of lawful age, sane mind, and unconvicted of crime, the right of voting for members of Parliament; and directing all future elections of members of Parliament to be in the way of secret ballot; and ordaining that the duration of Parliaments so chosen shall in no case exceed one year; and abolishing all property qualifications in the members; and providing for their due remuneration while in attendance on their Parliamentary duties.

And your petitioners, etc.

Thomas Babington Macaulay

1800–1859

The famous historian of England, the inventor of the Whig interpretation of history, was also a parliamentarian of note. His speech on the Ten Hours Bill on May 22, 1846, is a fine illustration of the encounter between a general principle and a specific instance. The general principle was the reaffirmation of the noninterventionist nature of the state. Much of the first part of the speech was a rhetorical endorsement of free trade and a fervent restatement of the economic benefits of unimpeded competition.

But, says Macaulay, ". . . the science of political economy teaches us only that we ought not on commercial grounds to interfere with the liberty of commerce." For, continues Macaulay, there may be ". . . higher than pecuniary interests . . . at stake. It concerns the commonwealth that the great body of the people should not live in a way which makes life wretched and short, which enfeebles the body and pollutes the mind." Now, the wealth of England is resident in the strength and vigor of its working population. Anything that promotes these qualities is good for England and anything that diminishes them must be evil. Therefore, the Ten Hours Act deserves support on grounds higher than commercial advantage. And in the conflict between general principle and concrete problem, it is the demand of the problem rather than of the principle which is answered.

Macaulay's conclusions are only one of a large number of cases in which the most devoted libertarians were capable of discovering grounds of state intervention in causes that aroused their sympathies. The full story of this tendency in the political economists is to be found in Lord Robbins's valuable Theory of Economic Policy.

The present excerpt is in Miscellaneous Writings and Speeches of Lord Macaulay (*London, 1882*), *pp. 718-28.*

Thomas Babington Macaulay: Speech in the House of Commons, 22 May 1846*

This, they say, is one of those matters about which we ought not to legislate at all; one of those matters which settle themselves far better than any government can settle them. Now it is most important that this point should be fully cleared up. We certainly ought not to usurp functions which do not properly belong to us; but, on the other hand, we ought not to abdicate functions which do properly belong to us. I hardly know which is the greater pest to society, a paternal government, that is to say a prying, meddlesome government which intrudes itself into every part of human life, and which thinks that it can do everything for everybody better than anybody can do anything for himself; or a careless, lounging government, which suffers grievances, such as it could at once remove, to grow and multiply, and which to all complaint and remonstrance has only one answer: 'We must let things alone: we must let things take their course: we must let things find their level.' There is no more important problem in politics than to ascertain the just mean between these two most pernicious extremes, to draw correctly the line which divides those cases in which it is the duty of the state to interfere from those cases in which it is the duty of the state to abstain from interference. . . .

Our statesmen cannot now be accused of being busybodies. But I am afraid that there is, even in some of the ablest and most upright among them, a tendency to the opposite fault. I will give an instance of what I mean. Fifteen years ago it became evident that railroads would soon, in every part of the kingdom, supersede to a great extent the old highways. The tracing of the new routes which were to join all the chief cities, ports, and naval arsenals of the island was a matter of the highest national importance. But, unfortunately, those who should have acted for the nation, refused to interfere. Consequently, numerous questions which were really public, questions which concerned the public convenience, the public prosperity, the public security, were treated as private questions. That the whole society was interested in having a good system of internal communication seemed to be forgotten. The speculator who wanted a large dividend on his shares, the landowner who wanted a large price for his acres, obtained a full hearing. But nobody applied to be heard on behalf of the community. The effects of that great error we feel, and we shall not soon

* Macaulay was speaking on the second reading of the Ten Hours Bill.

cease to feel. Unless I am greatly mistaken, we are in danger of committing tonight an error of the same kind. . . .

Trade, considered merely as trade, considered merely with reference to the pecuniary interest of the contracting parties, can hardly be too free. But there is a great deal of trade which cannot be considered merely as trade, and which affects higher than pecuniary interests. And to say that government never ought to regulate such trade is a monstrous proposition, a proposition at which Adam Smith would have stood aghast. . . .

For the science of political economy teaches us only that we ought not on commercial grounds to interfere with the liberty of commerce; and we, in the cases which I have put, interfere with the liberty of commerce on higher than commercial grounds. . . .

But your doctrine of free trade is an exaggeration, a caricature of the sound doctrine; and by exhibiting such a caricature you bring discredit on the sound doctrine. We should have nothing to do with the contracts between you and your tenants, if those contracts affected only pecuniary interests. But higher than pecuniary interests are at stake. It concerns the commonwealth that the great body of the people should not live in a way which makes life wretched and short, which enfeebles the body and pollutes the mind. . . .

If we consider man merely in a commercial point of view, if we consider him merely as a machine for the production of worsted and calico, let us not forget what a piece of mechanism he is, how fearfully and wonderfully made. We do not treat a fine horse or a sagacious dog exactly as we treat a spinning-jenny. Nor will any slaveholder, who has sense enough to know his own interest, treat his human chattels exactly as he treats his horses and his dogs. And would you treat the free labourer of England like a mere wheel or pulley? . . .

My honourable friend seems to me, in all his reasonings about the commercial prosperity of nations, to overlook entirely the chief cause on which that prosperity depends. What is it, Sir, that makes the great difference between country and country? Not the exuberance of soil; not the mildness of climate; not mines, nor havens, nor rivers. These things are indeed valuable when put to their proper use by human intelligence: but human intelligence can do much without them; and they without human intelligence can do nothing. They exist in the highest degree in regions of which the inhabitants are few, and squalid, and barbarous, and naked, and starving; while on sterile rocks, amidst unwholesome marshes, and under inclement skies, may be found immense populations, well fed, well lodged, well

clad, well governed. Nature meant Egypt and Sicily to be the gardens of the world. They once were so. Is it anything in the earth or in the air that makes Scotland more prosperous than Egypt, that makes Holland more prosperous than Sicily? No, it was the Scotchman that made Scotland; it was the Dutchman that made Holland. . . . Man, man is the great instrument that produces wealth. The natural difference between Campania and Spitzbergen is trifling, when compared with the difference between a country inhabited by men full of bodily and mental vigour, and a country inhabited by men sunk in bodily and mental decrepitude.

Never will I believe that what makes a population stronger, and healthier, and wiser, and better, can ultimately make it poorer. You try to frighten us by telling us that in some German factories the young work seventeen hours in the twenty-four, that they work so hard that among thousands there is not one who grows to such a stature that he can be admitted into the army; and you ask whether, if we pass this bill, we can possibly hold our own against such competition as this? Sir, I laugh at the thought of such competition. If ever we are forced to yield the foremost place among commercial nations, we shall yield it, not to a race of degenerate dwarfs, but to some people pre-eminently vigorous in body and in mind.

John Stuart Mill

1806–1873

John Stuart Mill, whom Gladstone described as the "Saint of Rationalism," is the archetypical liberal of his age. To be a liberal in the sense that Mill made popular implied adherence to a series of programs. These included measures to expand the liberties of Englishmen, such as the repeal of the laws that limited the political and educational opportunities of Catholics, Jews, and dissenters; passage of legislation to widen and rationalize the suffrage; public and private support to universal education; abolition of taxes on periodicals and newspapers; and removal of the legal disabilities that attended union organization. Mill's concept of liberalism emphasized above all the improvement of the quality of human existence and the quality of human beings. Hence a second category of policies focused upon the encouragement of individual incentives to self-improvement. It was for this reason that Mill opposed factory legislation designed to protect adult males, and supported the kind of alteration in relief that the Poor Law Act of 1834 embodied, a concept of relief that encouraged the industrious and penalized the imprudent. It was for this reason also that he sorrowfully denied the claims of socialism (in its utopian variety), even though he shared the ethical concerns of men like Robert Owen and William Godwin.

Liberalism implied attachment to a set of doctrines. These doctrines Mill was taught in the course of the Benthamite education which his father administered to the helpless child. This education, which is calmly described in Mill's Autobiography, *started the child on Greek at three, offered him Latin at eight, completed his knowledge of universal history at ten, and made him proficient at political economy by the time he was fourteen. If Mill is to be believed, his father took a child of rather less-than-average powers and gave him a generation's head start over his contemporaries. What his father taught*

him was the pure milk of Benthamite Philosophic Radicalism. The psychology was the pleasure-pain calculus of Bentham's Introduction to the Principles of Morals and Legislation. *The population doctrine was Malthusian. The political economy was essentially Ricardian.*

Hence when Mill came to write in 1848 his own Principles of Political Economy *he assumed that economic doctrine was in a comparatively settled condition. In his words: "Happily, there is nothing in the laws of values which remains for the present or any future writer to clear up; the theory of the subject is complete." Why bother, then, to write so massive a volume? Mill's answer contained a key distinction between the laws of production and the laws of distribution. The laws of production—the laws of diminishing returns, rent, and population—were indeed immutable. But how the produce of the earth and the factory was to be divided among human beings was within the control of the human beings themselves. His investigations, therefore, devoted themselves to an analysis of the best modes of income division.*

On this subject Mill is torn between two principles. His devotion to competition as a mode of economic organization and as a stimulus to individual effort continually checks his sympathy with limitations upon laissez-faire. But his devotion to welfare, his recognition that the quality of human life under mid-nineteenth-century capitalism is far from satisfactory, and his uneasy awareness that individualism may leave children uneducated, women oppressed, and men exploited frequently pressed him in the direction of state intervention. The excerpts that follow, dealing respectively with inheritance taxes and factory organization, illuminate this tension and contain Mill's resolution of it. He favors confiscatory inheritance taxes because these do not dampen incentives and opposes progressive income taxes because such taxes do discourage effort. His recommendation that workers acquire their own factories at once retains competition and removes the unwholesome suspicion and malingering which now characterize life in the factory.

The excerpts are taken from Mill's Principles of Political Economy, *edited by W. J. Ashley (London: Longmans, Green, 1909), pp. 221-5, 772-5.*

Mill on Inheritance

It follows, therefore, that although the right of bequest, or gift after death, forms part of the idea of private property, the right of inheri-

tance, as distinguished from bequest, does not. That the property of persons who have made no disposition of it during their lifetime, should pass first to their children, and failing them, to the nearest relations, may be a proper arrangement or not, but is no consequence of the principle of private property. Although there belong to the decision of such questions many considerations besides those of political economy, it is not foreign to the plan of this work to suggest, for the judgment of thinkers, the view of them which most recommends itself to the writer's mind.

No presumption in favour of existing ideas on this subject is to be derived from their antiquity. In early ages, the property of a deceased person passed to his children and nearest relatives by so natural and obvious an arrangement, that no other was likely to be even thought of in competition with it. In the first place, they were usually present on the spot: they were in possession, and if they had no other title, had that, so important in an early state of society, of first occupancy. Secondly, they were already, in a manner, joint owners of his property during his life. If the property was in land, it had generally been conferred by the State on a family rather than on an individual: if it consisted of cattle or moveable goods, it had probably been acquired, and was certainly protected and defended, by the united efforts of all members of the family who were of an age to work or fight. Exclusive individual property in the modern sense, scarcely entered into the ideas of the time; and when the first magistrate of the association died, he really left nothing vacant but his own share in the division, which devolved on the member of the family who succeeded to his authority. To have disposed of the property otherwise, would have been to break up a little commonwealth, united by ideas, interest, and habits, and to cast them adrift on the world. These considerations, though rather felt than reasoned about, had so great an influence on the minds of mankind, as to create the idea of an inherent right in the children to the possessions of their ancestor; a right which it was not competent to himself to defeat. Bequest, in a primitive state of society, was seldom recognised; a clear proof, were there no other, that property was conceived in a manner totally different from the conception of it in the present time.*

But the feudal family, the last historical form of patriarchal life, has long perished, and the unit of society is not now the family or clan, composed of all the reputed descendants of a common ancestor, but

* (1862). See, for admirable illustrations of this and many kindred points, Mr. Maine's profound work on *Ancient Law and Its Relation to Modern Ideas.*

the individual; or at most a pair of individuals, with their unemancipated children. Property is now inherent in individuals, not in families: the children when grown up do not follow the occupations or fortunes of the parent: if they participate in the parent's pecuniary means it is at his or her pleasure, and not by a voice in the ownership and government of the whole, but generally by the exclusive enjoyment of a part; and in this country at least (except as far as entails or settlements are an obstacle) it is in the power of parents to disinherit even their children, and leave their fortune to strangers. More distant relatives are in general almost as completely detached from the family and its interests as if they were in no way connected with it. The only claim they are supposed to have on their richer relations, is to a preference, *coeteris paribus,* in good offices, and some aid in case of actual necessity.

So great a change in the constitution of society must make a considerable difference in the grounds on which the disposal of property by inheritance should rest. The reasons usually assigned by modern writers for giving the property of a person who dies intestate to the children, or nearest relatives, are, first, the supposition that, in so disposing of it, the law is more likely than in any other mode to do what the proprietor would have done, if he had done anything; and secondly, the hardship, to those who lived with their parents and partook in their opulence, of being cast down from the enjoyments of wealth into poverty and privation.

There is some force in both these arguments. The law ought, no doubt, to do for the children or dependents of an intestate, whatever it was the duty of the parent or protector to have done,* so far as this can be known by any one besides himself. Since, however, the law cannot decide on individual claims, but must proceed by general rules, it is next to be considered what these rules should be.

We may first remark, that in regard to collateral relatives, it is not, unless on grounds personal to the particular individual, the duty of any one to make a pecuniary provision for them. No one now expects it, unless there happen to be no direct heirs; nor would it be expected even then, if the expectation were not created by the provisions of the law in case of intestacy. I see, therefore, no reason why

* The rest of this paragraph replaced in the 3rd ed. (1852) the following original text: "but from accident or negligence or worse causes he failed to do. Whether it would be possible, by means of a public administrator of intestate estates, to take cognizance of special claims and see justice done in detail, is a question of some difficulty into which I forbear to enter. I shall only consider what might with best reason be laid down as a general rule."

collateral inheritance should exist at all. Mr. Bentham long ago proposed, and other high authorities have agreed in the opinion, that if there are no heirs either in the descending or in the ascending line, the property, in case of intestacy, should escheat to the State. With respect to the more remote degrees of collateral relationship, the point is not very likely to be disputed. Few will maintain that there is any good reason why the accumulations of some childless miser should on his death (as every now and then happens) go to enrich a distant relative who never saw him, who perhaps never knew himself to be related to him until there was something to be gained by it, and who had no moral claim upon him of any kind, more than the most entire stranger. But the reason of the case applies alike to all collaterals, even in the nearest degree. Collaterals have no real claims, but such as may be equally strong in the case of non-relatives; and in the one case as in the other, where valid claims exist, the proper mode of paying regard to them is by bequest.*

The claims of children are of a different nature: they are real, and indefeasible. But even of these, I venture to think that the measure usually taken is an erroneous one: what is due to children is in some respects underrated, in others, as it appears to me, exaggerated. One of the most binding of all obligations, that of not bringing children into the world unless they can be maintained in comfort during childhood, and brought up with a likelihood of supporting themselves when of full age, is both disregarded in practice and made light of in theory in a manner disgraceful to human intelligence. On the other hand, when the parent possesses property, the claims of the children upon it seem to me to be the subject of an opposite error. Whatever fortune a parent may have inherited, or, still more, may have acquired, I cannot admit that he owes to his children, merely because they are his children, to leave them rich, without the necessity of any exertion. I could not admit it, even if to be so left were always, and certainly, for the good of the children themselves. But this is in the highest degree uncertain. It depends on individual character. Without supposing extreme cases, it may be affirmed that in a majority of instances the good not only of society but of the individuals would be better consulted by bequeathing to them a moderate, than a large

* From the 3rd ed. (1852) was omitted the following passage of the original: "If any near relatives, known to be such, were in a state of indigence, a donation or a small pension, according to circumstances, might, in case of intestacy, be assigned to them when the State appropriated the inheritance. This would be a justice, or a generosity, which they do not experience from the present law, since that gives all to the nearest collaterals, however great may be the necessities of those more distant."

provision. This, which is a commonplace of moralists ancient and modern, is felt to be true by many intelligent parents, and would be acted upon much more frequently, if they did not allow themselves to consider less what really is, than what will be thought by others to be, advantageous to the children.

The duties of parents to their children are those which are indissolubly attached to the fact of causing the existence of a human being. The parent owes to society to endeavour to make the child a good and valuable member of it, and owes to the children to provide, so far as depends on him, such education, and such appliances and means, as will enable them to start with a fair chance of achieving by their own exertions a successful life. To this every child has a claim; and I cannot admit that, as a child, he has a claim to more. There is a case in which these obligations present themselves in their true light, without any extrinsic circumstances to disguise or confuse them: it is that of an illegitimate child. To such a child it is generally felt that there is due from the parent, the amount of provision for his welfare which will enable him to make his life on the whole a desirable one. I hold that to no child, merely as such, anything more is due, than what is admitted to be due to an illegitimate child: and that no child for whom thus much has been done, has, unless on the score of previously raised expectations, any grievance, if the remainder of the parent's fortune is devoted to public uses, or to the benefit of individuals on whom in the parent's opinion it is better bestowed.

In order to give the children that fair chance of a desirable existence, to which they are entitled, it is generally necessary that they should not be brought up from childhood in habits of luxury which they will not have the means of indulging in after-life. This, again, is a duty often flagrantly violated by possessors of terminable incomes, who have little property to leave. When the children of rich parents have lived, as it is natural they should do, in habits corresponding to the scale of expenditure in which the parents indulge, it is generally the duty of the parents to make a greater provision for them, than would suffice for children otherwise brought up. I say generally, because even here there is another side to the question. It is a proposition quite capable of being maintained, that to a strong nature which has to make its way against narrow circumstances, to have known early some of the feelings and experiences of wealth, is an advantage both in the formation of character and in the happiness of life. But allowing that children have a just ground of complaint, who have been brought up to require luxuries which they are not afterwards likely to obtain, and that their claim, therefore, is good to a provision bear-

ing some relation to the mode of their bringing up; this, too, is a claim which is particularly liable to be stretched further than its reasons warrant. The case is exactly that of the younger children of the nobility and landed gentry, the bulk of whose fortune passes to the eldest son. The other sons, who are usually numerous, are brought up in the same habits of luxury as the future heir, and they receive as a younger brother's portion, generally what the reason of the case dictates, namely, enough to support, in the habits of life to which they are accustomed, themselves, but not a wife or children. It really is no grievance to any man, that for the means of marrying and of supporting a family, he has to depend on his own exertions.

Mill on Workers' Co-operatives

§6. The form of association, however, which if mankind continue to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief, and workpeople without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves. So long as this idea remained in a state of theory, in the writings of Owen or of Louis Blanc, it may have appeared, to the common modes of judgment, incapable of being realized, and not likely to be tried unless by seizing on the existing capital, and confiscating it for the benefit of the labourers; which is even now imagined by many persons, and pretended by more, both in England and on the Continent, to be the meaning and purpose of Socialism. But there is a capacity of exertion and self-denial in the masses of mankind, which is never known but on the rare occasions on which it is appealed to in the name of some great idea or elevated sentiment. Such an appeal was made by the French Revolution of 1848. For the first time it then seemed to the intelligent and generous of the working classes of a great nation that they had obtained a government who sincerely desired the freedom and dignity of the many, and who did not look upon it as their natural and legitimate state to be instruments of production, worked for the benefit of the possessors of capital. Under this encouragement, the ideas sown by Socialist writers, of an emancipation of labour to be effected by means of association, throve and fructified; and many working people came to the resolution, not only that they would work for one another, instead of working for a master tradesman or manufacturer, but that they

would also free themselves, at whatever cost of labour or privation, from the necessity of paying, out of the produce of their industry, a heavy tribute for the use of capital; that they would extinguish this tax, not by robbing the capitalists of what they or their predecessors had acquired by labour and preserved by economy but by honestly acquiring capital for themselves. If only a few operatives had attempted this arduous task, or if, while many attempted it, a few only had succeeded, their success might have been deemed to furnish no argument for their system as a permanent mode of industrial organization. But, excluding all the instances of failure, there exist, or existed a short time ago,* upwards of a hundred successful, and many eminently prosperous, associations of operatives in Paris alone, besides a considerable number in the departments. An instructive sketch of their history and principles has been published, under the title of *L'Association Ouvrière Industrielle et Agricole*, by H. Feugueray: and as it is frequently affirmed in English newspapers that the associations at Paris have failed, by writers who appear to mistake the predictions of their enemies at their first formation for the testimonies of subsequent experience, I think it important to show by quotations from M. Feugueray's volume, strengthened by still later testimonies,† that these representations are not only wide of the truth, but the extreme contrary of it.

The capital of most of the associations was originally confined to the few tools belonging to the founders, and the small sums which could be collected from their savings, or which were lent to them by other workpeople as poor as themselves. In some cases, however, loans of capital were made to them by the republican government: but the associations which obtained these advances, or at least which obtained them before they had already achieved success, are it appears, in general by no means the most prosperous. The most striking instances of prosperity are in the case of those who have had nothing to rely on but their own slender means and the small loans of fellow-workmen, and who lived on bread and water while they devoted the whole surplus of their gains to the formation of a capital.

"Often," says M. Feugueray, "there was no money at all in hand, and no wages could be paid. The goods did not go off, the payments did not come in, bills could not get discounted, the warehouse of materials was empty; they had to submit to privation, to reduce all expenses to the minimum, to live sometimes on bread and water. . . .

* So since 4th ed. (1857). Originally, in 3rd ed. (1852), "a few months ago."

† "Strengthened" &c., added in 5th ed. (1862).

It is at the price of these hardships and anxieties that men who began with hardly any resource but their good will and their hands, succeeded in creating customers, in acquiring credit, forming at last a joint capital, and thus founding associations whose futurity now seems to be assured."

§7. The preceding are the principal reasons, of a general character, in favour of restricting to the narrowest compass the intervention of a public authority in the business of the community: and few will dispute the more than sufficiency of these reasons, to throw, in every instance, the burthen of making out a strong case, not on those who resist, but on those who recommend, government interference. *Laisser-faire*, in short, should be the general practice: every departure from it, unless required by some great good, is a certain evil.

Sidney Webb

1859–1947

In the course of their long lives, Sidney and Beatrice Webb left a lasting imprint upon English society. As economic, political, and social historians, they wrote multivolume histories of the British labor movement, English local government, English Poor Laws, and Russian Communism. It testifies to their scholarly capacity that their work on labor unions and local government is still much used half a century after the dates of original writing.

The Webbs were organizers as well as scholars. In this role, they established the London School of Economics, renovated the Poor Laws, converted the London County Council into an efficient implement of social welfare, and participated in the founding of the Fabian Society. Early members of that society included Bernard Shaw and, briefly, H. G. Wells. The latter unkindly caricatured the Webbs in a maliciously enjoyable novel, The New Machiavelli. *It says something about the continuing impact of the Fabians that a later member of the society, which is still in existence, was Clement Atlee. The Fabians devoted themselves to the advance of socialism after a style that is very English. Organizationally, they limited their numbers to a small group of ferociously intellectual types, highly reminiscent of the formidable Philosophical Radicals of the first half of the nineteenth century. Their techniques naturally employed the strong points of such a membership. They were active pamphleteers, untiring controversialists, formidable givers of testimony to Royal Commissions, and tireless educators of politicians and journalists.*

As the last sentence implies, they relied upon persuasion rather than mass pressure, and gradual change rather than revolution. Indeed, so gradual was the change that their style of agitation appeared

to promote that the Webbs were sometimes derided as advocates of gas-and-sewer socialism, a reference to their preoccupation with municipal reform. In fact, the Webbs hesitated for some years before casting their lot with the new Labour Party, out of the feeling that much might be accomplished through the older parties. When they did join, they placed upon the party their characteristic stamp. Even today the British Labour Party is inclined to stress piecemeal social reform rather than over-all change. The carefully researched brief, the limited objective, the gradual advance, these are all legacies of the Webbs.

There is another legacy which has probably had a less fortunate effect. This is the unideological character of the Webbs' brand of "socialism." The Webbs were rather casually collectivist in temper: they looked forward to much governmental ownership, both national and municipal. But there is no theory to be found in their writings of what is to be nationalized, on what principles nationalized enterprises should be run, and how state and private activity should be co-ordinated. Again, the Webbs looked forward to extensive changes in their society and extensive readjustments of the privileges of the major economic classes. Nevertheless, there is little in the way of class theory to be inferred from their writings. In a true British tradition, the Webbs suspected theory and trusted facts. Their sympathetic biographer, R. H. Tawney, notes a characteristic response to a major economic theory, the theory of value. He recalls Sidney Webb's feeling that if one must have a theory of value (and he didn't really see the need), he supposed the Jevons's theory was as good as any. Thus he lightly dismissed a century and more of theory by both classical and Marxist economists.

The original Fabian Essays were published in 1889. The present selection is part of Sidney Webb's introduction to the 1920 reprint. It can be found in Fabian Essays, *edited by Bernard Shaw (1920), pp. xviii-xxvi. (London: George Allen & Unwin Ltd.) Used by permission of the publisher.*

Sidney Webb

No one should read these essays of thirty years ago without realising how far they fall short, to-day, of any adequate exposition of British Socialism; and even the additional works mentioned in the footnotes are very far from affording any complete idea of the man-

ner in which the Socialist vision has been filled out by more detailed studies.*

It is, perhaps, significant that the part of the book that comes most triumphantly through the ordeal of such an examination is, throughout, the economic analysis. I think it is not merely the partiality of friendship that finds in the first essay a survey of the economic evolution of society which, for terse comprehensiveness and brilliant generalisation, has not since been excelled in any language. But throughout the whole book what is distinctively economic is, in my judgment, as incisive and accurate to-day as it was when it was written. Tested by a whole generation of further experience and criticism, I conclude that, in 1889, we knew our Political Economy, and that our Political Economy was sound.

Our history, though, I believe, essentially accurate, was plainly based on less solid a grounding of knowledge. We evidently had not fully penetrated the moving shadow that is made, according to our present educational curriculum, always to cover the doings of the couple of generations immediately preceding our own. The gradual transformation, both of opinion and of institutions, from an essentially Individualist to an essentially Collectivist basis, will be found more fully and more precisely described, significantly enough, not in any propagandist publication, but in the chapter entitled "Social Movements" in volume xii of the *Cambridge Modern History*, which the Fabian Society has been permitted to republish by the Syndics of the Cambridge University Press under a new title.†

Moreover, our knowledge of the social and industrial forces of our own country was far from complete. We evidently attached quite insufficient importance to Trade Unionism, which the book never mentions as a political force, or as constituting any essential part of the social structure. It is clear that we had little notion, in 1889, of the enduring value and indispensable social function of Vocational

* For a special propagandist appeal, see *This Misery of Boots*, by H. G. Wells; together with *New Worlds for Old* and *A Modern Utopia*, by the same.

† *Towards Social Democracy?* 1916 (Fabian Society), price 1s. See also *The Making of Modern England*, by Gilbert Slater, 1913; *The History of Factory Legislation*, by B. L. Hutchins and Amy Spencer, revised edition, 1911; *Minimum Rates in the Chain-making Industry*, 1914; and *Minimum Rates in the Tailoring Trade*, 1915; both by R. H. Tawney; *Riches and Poverty*, 1905, latest edition, 1913; *The Future of Work*, 1914, and others, by Sir Leo Chiozza Money; *Round About a Pound a Week*, by Mrs. Pember Reeves, 1913; Fabian Tract, No. 124, *State Control of Trusts; Trusts and the State*, 1901, and *The Trust Movement in British Industry*, 1907, by H. W. Macrosty.

Organisation of any sort; and we had no anticipation that it was to be, as is nowadays commonly accepted, a permanent part of social organisation, destined, in the State of To-morrow, for important public functions. We very soon set about remedying this particular gap in our knowledge; and the publication, in 1894, of the *History of Trade Unionism*, and at the end of 1897, of the comprehensive analysis of the whole structure and function of the workmen's organisations entitled *Industrial Democracy*, effectively brought the Trade Union Movement into our common consciousness. We may perhaps say that it did more than this. It laid the foundation for, and possibly contributed to promote, in a younger generation, the whole series of studies of different aspects of Vocational Organisation, and its place in the society of the future, which, whatever we may think of their elaboration into what is called "Guild Socialism," constitute, perhaps, the most important addition that this century has yet made to Socialist thought.*

We were similarly unappreciative of the Co-operative Movement. Influenced, perhaps, by the conventional detraction as to its failure to live up to its ideals—a detraction which ignored the fundamental cleavage between Associations of Producers and Associations of Consumers—we did not recognise in the working-class Co-operative Store any part of the social structure of the future. Hence we did not, in our constructive forecasts, make any use of the very important discoveries in practical organisation that the Co-operators had, from 1844 onward, stumbled upon; we did not realise the extent to which these would render practicable the social advantage of producing, not in the mere anticipation of profit but in order to satisfy an ascertained demand; and how they would demonstrate the success, in the extensive business of household supplies of the supersession of the profit-making capitalist by an essentially Collectivist organisation. This omission was made good by the publication, in 1890, of *The Co-operative Movement in Great Britain*, by one who presently joined our group.†

We concerned ourselves more about Local Government than about

* See, in particular, the various works by G. D. H. Cole, often acutely critical of our general views, especially *The World of Labour, Self-Government in Industry, Labour in the Commonwealth, Trade Unionism on the Railways;* and *An Introduction to Trade Unionism. Professional Associations, and English Teachers and their Professional Organization* (Supplements to *The New Statesman* of *April 21st* and *28th*, 1917, *Sept. 25th* and *October 2nd*, 1915); *Trade Unionism*, by C. M. Lloyd, 1915; *The Tailoring Trade*, by F. W. Galton, 1896; *Women in the Engineering Trade*, by Barbara Drake.

† *The Co-operative Movement in Great Britain*, by Beatrice Potter (afterwards Mrs. Sidney Webb), 1890. For a later analysis, see *Co-operative*

Trade Unionism or Co-operation; but in 1889, in common with most Socialists (and, for that matter, also most Individualists), we were still groping after the illuminating idea that would assign to our Local Authorities their appropriate place and function in the Social Organism. In these Essays we slipped into thinking of them as organising production for the sake of the unemployed and as ultimately developing, side by side with capitalist enterprise, alternative factories and shops, which would, under the management of Town and County Councils, beat the profit-maker with his own weapons, at his own game. It did not occur to us in 1889 that the Parish Vestry, the Municipality, and the County Council were, like the Co-operative Societies, essentially Associations of Consumers, not Associations of Producers; Associations in which membership was obligatory on all local residents, instead of being voluntary, but the function of which was equally the collective provision for the citizens, as consumers, of whatever services they, as consumers, required. When we tumbled to this idea—an important addition to Socialist theory—we saw at once the extensive sphere that must necessarily be assigned, in any highly organised and densely populated community, to "Municipal Socialism," as contrasted with the "State Socialism," which is what had commonly been thought of prior to that date; and the important part to be played in the Socialist State by its various democratically organised and practically autonomous Local Governing Bodies. We came very vividly to appreciate the significance of their manifold functions in ridding us from the hypothetical tyranny of a single national employer, inevitably "bureaucratic" in character, no less than from the incumbus of an all-pervading uniformity of social life. In the State of To-morrow, as we realised, those who did not like the arrangements of Hampstead would always be able to move to Highgate and live under a different local government. We accordingly saw our way to a vast increase in the consciousness of personal freedom, a vista of endless diversity, the practical opportunity for an indefinitely varied development of human personality, under the most complete and all-embracing Collectivism. We threw ourselves with energy into the study and the propaganda of "Municipal Socialism," the steady increase of which has resulted not merely in greatly widening the available experience of Collectivism, and in the placing, by 1919, of literally thousands of members of the Labour Party on Local

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Production and Profit-Sharing; and *The Co-operative Movement*; being two reports of the Fabian Research Department, published as supplements to *The New Statesman, February 14th,* and *May 30th,* 1914; *Co-operation and the Future of Industry,* by L. S. Woolf, 1919.

Governing Bodies, but also in considerably filling out the vision of the organisation of the Socialist State.*

We were, if somewhat better informed, almost as vague about the functions of the National Government as about the local Authorities. For some years yet we were to talk about Nationalisation only in general terms; and it was largely by a subsequent generation that this policy, with regard to the means of communication and transport to the mining industry in particular, and to some extent, banking insurance and international remittance, was worked out in practical detail.† About the future of agriculture, whilst we instinctively saved ourselves from any sympathy with a reversion to a peasant proprietary State, we were in 1889, almost completely unspeculative.‡

Passing now from structure to function, it is plain to-day that we

* Among the literary results of this development may be mentioned *The Common Sense of Municipal Trading*, by Bernard Shaw, 1908; *The London Programme*, by Sidney Webb, 1892; and *Grants in Aid*, 1911, by the same; *The Parish and the County*, *The Manor and the Borough* and *The Story of the King's Highway*, all by Sidney and Beatrice Webb; *The Case for Municipal Drink*, by E. R. Pease, 1904; *Local Government in Scotland*, by Mabel Atkinson, 1904; *Town Planning in Practice*, by Raymond Unwin, 1909; *An Example of Communal Currency* [*The Guernsey Market House*], by J. Theodore Harris, 1911; *The Municipal Manual*, by Albert E. Lauder, 1907; *The Public Health Agitation*, by B. L. Hutchins, 1909; *The Reorganisation of Local Government*, by C. M. Lloyd, 1919. Many of the "Fabian Tracts" have dealt with Local Government, notably No. 8, *Facts for London*; No. 62, *Parish and District Councils*; No. 109, *Cottage Plans and Common Sense*, by Raymond Unwin; No. 122, *Municipal Milk and Public Health*; No. 125, *Municipalisation by Provinces*; No. 137, *Parish Councils and Village Life*; No. 138, *Municipal Trading*; No. 148, *What a Health Committee can do*; No. 156, *What an Education Committee can do*; No. 172, *What about the Rates or Municipal Finance and Municipal Autonomy*, by Sidney Webb; No. 173, *Public versus Private Electricity Supply*, by C. Ashmore Baker.

† See *The Collectivist State in the Making*, 1914; *The Nationalisation of Railways*, 1908, second edition, 1911; and *The Case for Railway Nationalisation*, 1913, all by A. Emil Davies; *State and Municipal Enterprise*, by the Fabian Research Department (of 15 May, 1916); *How to Pay for the War*, by the same, 1916, with its separately issued parts; *The Development of the Post Office*, *A Public Service of Railway and Canal Transport*, *the Nationalisation of the Coal Supply*, *A State Insurance Department*, and *A Revolution in the Income Tax; Should our Railways be Nationalised?* by W. Cunningham, 1906; *State Industrialism* (*the Story of the Phalanx*), by F. W. Hayes, 1894; *A Levy on Capital*, by F. W. Pethick Lawrence, 1919; *National Finance and the Capital Levy*, by Sidney Webb, 1919; Fabian Tract No. 164, *Gold and State Banking*, and No. 147, *Capital and Compensation*, both by E. R. Pease.

‡ Subsequent work has been mainly historical and descriptive, or devoted to immediately practicable reforms. See *The Rural Problem*, by H. D.

went far astray in what was said about Unemployment and the Unemployed. It was not that we made too much of the evil of Unemployment. We were (as we ought to have been) horribly oppressed by the tragic misery of households brought to destitution, and whole families ruined, merely as a consequence of the recurring cyclical depressions of trade; but we understood no better than other people how to grapple with the problem, either in the way of prevention or in that of treatment. Through lack of adequate investigation of the phenomena, we erred, in common not only with other socialists, but also with the ordinary Economists and Politicians, in assuming that recurrent periods of widespread Unemployment could not in practice be prevented under any system short of a completely organised Collectivism; and, like so many other well-meaning people, of diverse opinions, we were in 1889, still speculating as to the possibility of organising "the Unemployed" as such, so that their several efforts at production might mutually supply their common needs. But our failure to devise any practicable method of dealing with the "non-effectives" was not confined to the problems presented by the able-bodied adults who might find themselves involuntarily unemployed. There was, in 1889, on the side of the Socialists, no study of, and no scheme for the social provision for, any of the non-effectives of society, whether orphan children, the sick or the infirm, the involuntarily unemployed or the aged. Most visions of the future social order looked at it, almost exclusively, as if society were, or ought to be composed entirely of healthy adults, free from accidents and exempt, if not from death, at any rate from senility. This gap in our knowledge we did not fill until the appointment in 1905, of Mr. George Lansbury and Mrs. Sidney Webb to the Royal Commission on the Poor Law and the Relief of Distress from Unemployment; which resulted, after four years of strenuous investigation, in which a good many other members of the Society took part, in the working-out of an elaborate scheme—constituting the Minority Report of the Commission—first for the actual prevention of any widespread or continuous Unemployment, even in our present social order, by the maintenance at an approximately even level, of the aggregate weekly demand for wage-labour, season by season, and year by year, to be effected by nothing

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Harben, 1913; *The English Peasantry and the Enclosure of Common Fields,* by Gilbert Slater; *The Small Holding,* 1903, *The Awakening of England,* 1912, new edition, 1919, and *The Tyranny of the Countryside,* 1913, and others, by F. E. Green; *The Agrarian Problem in the Sixteenth Century,* by R. H. Tawney, 1912; *Life in an English Village,* by Maud Davies, 1909; *Socialism and Agriculture* (No. 2 of Fabian Socialist Series); Fabian Tract, No. 161, *Afforestation and Unemployment.*

more impracticable than a rearrangement of the present public orders for works and services—a course which has been demonstrated to be both statistically adequate and easily within the capacity of the first Government that chooses to undertake it; and secondly for the wisely designed full and ample provision, under Democratic control, of whatever is required for the efficient nurture and maintenance of every section of the "non-effectives," from the orphan infant to the friendless aged. In the world as we know it, this social provision for the non-effectives must form an indispensable part of the Socialist conception of the State; and for this essentially social function appropriate social structure has necessarily to be provided.*

A more general shortcoming, affecting both structure and function, was our failure to "think internationally." With the partial exception of William Clarke, we had none of us given attention either to the continental Socialist Movements, or to international relations. We had not attended the first congress at Paris, in 1889, of the revived "International," and, except for our studies of Proudhon, Lassalle and Karl Marx, and some slight personal acquaintance with Socialist exiles in London, we knew practically nothing of what was happening in the Socialist world outside our own country. But here, too, we quickly improved our qualifications.† The Fabian Society was represented at the next International Socialist Congress at Brussels in 1891, and has ever since taken its share in international relations. But we had our

* The Minority Report of the Poor Law Commission was republished in 1909 in two volumes, by S. and B. Webb, as *The Abolition of the Poor Law* and *The Public Organisation of the Labour Market.* See also *The Prevention of Destitution* by the same authors, 1911; *Socialism and National Minimum* (No. IV in Fabian Socialist Series); Fabian Tract, No. 159, *The Necessary Basis of Society,* by Sidney Webb. For the medical problem, see *A Public Medical Service,* by David McKail and Wm. Jones, 1919; Fabian Tract, No. 160; *A National Medical Service,* by F. Lawson Dodd; *The State and the Doctor,* by S. and B. Webb, 1911; and, for the special problem of the adolescent, *The Town Child,* 1907, and *Boy Labour and Apprenticeship,* by Reginald Bray, 1911; *Child Labour in the United Kingdom,* 1914, and *The Labour Exchange in relation to Boy and Girl Labour,* by F. Keeling, 1909; *The Health and Physique of School Children,* 1913, and *Juvenile Labour Exchanges and After-Care,* by A. Greenwood; *School Care Committees,* by Maud Davies, 1909; *Boy Life and Labour,* by Arnold Freeman, 1914; *The School Doctor in the Home,* by Dr. Marion Phillips, 1913; Fabian Tract No. 145, *The Case for School Nurseries,* by Mrs. Townshend; No. 154, *The Case for School Clinics,* by L. Haden Guest.

† See *Modern Socialism,* by R. C. K. Ensor, 1903; *German Social Democracy,* by Bertrand Russell, 1896; Fabian Tract No. 109, *The Socialist Movement in Germany,* and *Trade Unionism in Germany,* by W. S. Sanders.

Socialism and the Empire: A Manifesto, edited by G. Bernard Shaw, 1900; and *Socialism and the Fiscal Question,* by the same, 1904; *The Fiscal*

own view of internationalism. We had little sympathy with the ideal of a universal cosmopolitanism which some Socialists and many Liberals more or less consciously cherished, as an exaggeration, if not a perversion, of the teachings of Mazzini on the one hand, and Cobden on the other. What we aimed at was, literally, an organised "internationalism," in which national characteristics among the manual-working wage earners no less than among governments, far from becoming obliterated or straightened out into a mechanical uniformity, would be not only separately developed, but also differentiated even further than at present. We counted on each racial group or Nation-State pursuing its own evolution, and shaping its own destiny, uninterruptedly in its own way, intensifying thereby its characteristic faculties, and thus increasing the special services that it could render to the world; in order to enrich the common future, not only by exchange but actually by the continuous increase of a desirable variety in qualities and achievements, even in such secondary matters as costume and language. We held that, whilst profiting to the utmost by what we could learn from each other, and without imagining or seeking a superiority which it is, between combinations of qualitative differences, always impossible to measure, it behoves the British to be as good Britons as they can possibly make themselves, and the French as good Frenchmen. This, at any rate, was the synthesis between patriotism and internationalism that we evolved for ourselves; and to this we tenaciously held; yielding neither to "Imperialism" on the one hand, nor to "Little Englandism" on the other; and seeking always to replace the ignorant pride of pre-eminence of race or dominance of Empire by a recognition, among all States and peoples—to use a phrase of John Stuart Mill—of "that best kind of equality, reciprocal superiority"; always prompt to recognise and acknowledge, for the common service of all, every feature in which any race

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Dictionary, 1910, and *Elements of the Fiscal Problem*, 1903, by Sir Leo Chiozza Money.

White Capital and Coloured Labour, by Sir Sydney Olivier, K.C.M.G., 1909; and *The League of Nations and Primitive Peoples*, 1918, by the same; *India and the Empire*, 1914; *India a Nation*, 1915; and *The Case for India*, 1918, by Mrs. Annie Besant.

The War of Steel and Gold, 1914, and *A League of Nations*, 1917, by H. N. Brailsford; Fabian Tract, No. 184, *The Russian Revolution and British Democracy*, by Julius West; No. 186, *Central Africa and the League of Nations*, by R. C. Hawkin; *The Conditions of a Lasting Peace* and *The Future of Constantinople*, by Leonard S. Woolf, 1917; *Peace and War in Europe*, by Gilbert Slater, 1915.

essentially differs from, and thereby in that particular excels another, even if that other be our own.*

Generally, it may be said, I think, that we concentrated our thought too much on the actual conditions that would in an effective Democracy, enable the great mass of the people to secure for themselves material prosperity, social freedom and a progressive advance in civilization, with all the development of individual personality that these conditions alone can make possible. We did not sufficiently remember hat it is equally indispensable that the whole people should feel themselves to be prosperous; that they should have an acute consciousness of their freedom; that they should, as a completely Democratic community, not merely govern but also be continuously aware of the government they are exercising. It was not—as is always ignorantly alleged of Socialists—that we put our faith too exclusively in "machinery," even social machinery; or that we "ignored human nature" in the ordinary sense. We were painfully aware of the difficulties—several of us were personally experienced in them—of "making things work"; and of the unavoidable "time factor" in all social change. But we did not sufficiently allow for the psychological fact that no man is free who does not think himself free; and that no one is benefiting by the responsibilities of governing, unless he is aware that he is governing. We had thought out the conditions of social freedom in a Democracy; but we had not thought out the conditions of a generally diffused consciousness of social freedom. And whilst we were strong on Liberty and Fraternity, as essentials of Democracy, we were apt to forget Equality, as a no less indispensable element in Socialism. We presently acquired something of what we lacked from our nearer acquaintance with Co-operation, Municipal Government, and above all, Trade Unionism; but much had to be learned from the studies subsequently made in what may be called Social Psychology, to which some of us contributed.†

If there is little "Feminism" in these Essays, it was not from any

* A notable attempt to work this out into a practicable form of "Supernational Authority"—called subsequently a League of Nations—was made by a Committee of the Fabian Society, after important studies by L. S. Woolf; see *International Government*, by him (1915).

† Mention may be made of *The Quintessence of Ibsenism* by G. Bernard Shaw, 1891; and, indeed, all his subsequent works; together with the books and plays of H. Granville Barker; and, in another field, Fabian Tract, No. 180, *The Philosophy of Socialism*, and other works by A. Clutton Brock. Specially significant are *Human Nature in Politics*, 1908, and *The Great Society*, 1914, both by Graham Wallas; see also his *Life of Francis Place*, 1898, revised edition, 1918.

lack of sympathy with the aspirations of women to the fullest freedom of opportunity and development. We had persistently demanded equal adult suffrage in our lectures and manifestoes; and we lost no opportunity of placing the women's case on its broadest basis, beyond all considerations of momentary expediency. The Society organised a special section to ensure that all questions should be dealt with with complete sex equality, and the efforts and publications of the Fabian Women's Group have had their share in the general advance of thought.*

The renewed insistence on Equality—equality of material circumstances no less than equality before the law and equality of voting power and eligibility for office—British Socialism owes to Mr. Bernard Shaw.†

* See Fabian Tract, No. 131, *The Decline in the Birthrate,* by Sidney Webb; No. 149, *The Endowment of Motherhood,* by H. D. Harben; No. 157, *The Working Life of Women,* by B. L. Hutchins; No. 162, *Family Life on a Pound a Week,* by Mrs. Pember Reeves; No. 175, *The Economic Foundations of the Women's Movement,* by M. A., and No. 178, *The War, Women and Unemployment,* by the Women's Group Executive.

Women Workers in Seven Professions, by Professor Edith Morley; *Round about a Pound a Week,* by Mrs. Pember Reeves, 1913; *Conflicting Ideals,* by B. L. Hutchins, *Women and the Labour Party,* by Marion Phillips, D.Sc., 1918; *Economics, descriptive and theoretical,* 1911, and *Wealth, a brief explanation of the causes of economic Welfare,* 1914, both by Mabel Atkinson and Margaret McKillop; and *Efficiency Methods,* 1917, by M. and A. McKillop; Fabian Tract, No. 151, *The Point of Honour,* by Ruth C. Bentinck.

† See his lecture on *Equality* published by the National Liberal Club, 1914, and in the *Metropolitan Magazine* (New York).

John Maynard Keynes

1883–1946

John Maynard Keynes, this century's most influential economist, produced in The General Theory of Employment, Interest and Money *(1936) the most influential single book by an economist. An idea triumphs when it reaches first the textbooks and then a wider public innocent of contact either with the original or its textbook homogenizations. By these tests* The General Theory *is a triumph of the century. The standard college textbooks routinely organize half of the year's work around the Keynesian theory of national income determination. The general public associated Keynes with the New Deal and the New Deal with unbalanced budgets, pump-priming, countercyclical public finance, and public works. A glance at the* Wall Street Journal *or the financial section of the New York* Herald Tribune *will give quick evidence that the identification has stuck.*

In the history of economic ideas, where does Keynes now stand? What is now believed to be his major contribution? Many economists would answer these questions with a reference to the esoteric doctime known as Say's Law. J.-B. Say, the French nineteenth-century popularizer of Adam Smith, argued that general unemployment, "general glut," in his language, was impossible in a competitive economy. No businessman produced goods save with the notion of using the income that he derived from their sale for his own gratification. If he saved money, he simply made it available to other businessmen for their investment. Supply, in a word, created its own demand. And while individual miscalculation might always occur, general surplus was impossible. Later economists even in the twentieth century tacitly accepted various complex versions of Say's Law of Markets and frequently argued that actual overproduction and unemployment was the consequence of corporate or union failure to understand the

logic of adjustment to temporary surpluses. That logic implied price reductions and wage reductions.

In the depressed atmosphere of the 1930's, this theory all too evidently failed to explain the leading features of reality. Nevertheless, in the absence of a better one, most economists made do, with varying degrees of discomfort, with this one. Keynes's great achievement was the creation of a theory that conformed more closely to the facts. That theory, the theory of underemployment equilibrium, argued that individuals might try to save too much, that investors might wish to invest too little, and that in consequence the economy might bump along, in unhappy equilibrium, for years on end with no tendency whatsoever to return to full employment.

What could be done to amend the condition? Wage cuts were out. If the depression were not too severe, monetary policy designed to reduce interest rates and increase investment might do the job. In a depression like that of the 1930's, more might be needed. Private investors might be so discouraged that monetary policy would have little effect upon them. In that case the answer might be public spending, financed by borrowing rather than taxation. Expenditure on useful objectives was no doubt most sensible, but even thoroughly wasteful expenditure would stimulate business by some multiple of itself. The language in which Keynes put this proposition is an entertaining example of his sardonic style:

> *If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coal mines which are then filled up to the surface with town rubbish, and leave it to Private enterprises on well-tried principles of* laissez-faire *to dig up the notes again . . . there need be no more unemployment, and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is. It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing.*

The selection from The General Theory *that follows contemplates the still graver possibility that a permanent shortage of outlets for investment may exist in Western capitalism. The remedy it contemplates is greater state responsibility for the direct organization of investment. The popular American doctrine of the 1930's argued, in the formulation that Harvard's Alvin Hansen gave it, that "secular stagnation" was the consequence in this country of declining population growth, the delayed impact of the closed frontier, and the slowdown in technological innovation. Using amended arguments, some*

economists in the 1960's have tentatively advanced a like hypothesis to explain the slower growth of the period 1953-61.

The selection comes from The General Theory of Employment, Interest and Money, *by John Maynard Keynes, pp. 372-84. Reprinted by permission of Harcourt, Brace & World, Inc.*

Concluding Notes on the Social Philosophy Towards Which the General Theory Might Lead

I

The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes. The bearing of the foregoing theory on the first of these is obvious. But there are also two important respects in which it is relevant to the second.

Since the end of the nineteenth century significant progress towards the removal of very great disparities of wealth and income has been achieved through the instrument of direct taxation—income tax and surtax and death duties—especially in Great Britain. Many people would wish to see this process carried much further, but they are deterred by two considerations; partly by the fear of making skilful evasions too much worth while and also of diminishing unduly the motive towards risk-taking, but mainly, I think, by the belief that the growth of capital depends upon the strength of the motive towards individual saving and that for a large proportion of this growth we are dependent on the savings of the rich out of their superfluity. Our argument does not affect the first of these considerations. But it may considerably modify our attitude towards the second. For we have seen that, up to the point where full employment prevails, the growth of capital depends not at all on a low propensity to consume but is, on the contrary, held back by it; and only in conditions of full employment is a low propensity to consume conducive to the growth of capital. Moreover, experience suggests that in existing conditions saving by institutions and through sinking funds is more than adequate, and that measures for the redistribution of incomes in a way likely to raise the propensity to consume may prove positively favourable to the growth of capital.

The existing confusion of the public mind on the matter is well illustrated by the very common belief that the death duties are responsible for a reduction in the capital wealth of the country. Assuming that the State applies the proceeds of these duties to its ordinary

outgoings so that taxes on incomes and consumption are correspondingly reduced or avoided, it is, of course, true that a fiscal policy of heavy death duties has the effect of increasing the community's propensity to consume. But inasmuch as an increase in the habitual propensity to consume will in general (*i.e.* except in conditions of full employment) serve to increase at the same time the inducement to invest, the inference commonly drawn is the exact opposite of the truth.

Thus our argument leads towards the conclusion that in contemporary conditions the growth of wealth, so far from being dependent on the abstinence of the rich, as is commonly supposed, is more likely to be impeded by it. One of the chief social justifications of great inequality of wealth is, therefore, removed. I am not saying that there are no other reasons, unaffected by our theory, capable of justifying some measure of inequality in some circumstances. But it does dispose of the most important of the reasons why hitherto we have thought it prudent to move carefully. This particularly affects our attitude towards death duties; for there are certain justifications for inequality of incomes which do not apply equally to inequality of inheritances.

For my own part, I believe that there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist to-day. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition. Moreover, dangerous human proclivities can be canalised into comparatively harmless channels by the existence of opportunities for money-making and private wealth, which, if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement. It is better that a man should tyrannise over his bank balance than over his fellow-citizens; and whilst the former is sometimes denounced as being but a means to the latter, sometimes at least it is an alternative. But it is not necessary for the stimulation of these activities and the satisfaction of these proclivities that the game should be played for such high stakes as at present. Much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them. The task of transmuting human nature must not be confused with the task of managing it. Though in the ideal commonwealth men may have been taught or inspired or bred to take no interest in the stakes, it may still be wise and prudent statesmanship to allow the game to be played, subject to rules and limitations, so long as the

average man, or even a significant section of the community, is in fact strongly addicted to the money-making passion.

II

There is, however, a second, much more fundamental inference from our argument which has a bearing on the future of inequalities of wealth; namely, our theory of the rate of interest. The justification for a moderately high rate of interest has been found hitherto in the necessity of providing a sufficient inducement to save. But we have shown that the extent of effective saving is necessarily determined by the scale of investment and that the scale of investment is promoted by a *low* rate of interest, provided that we do not attempt to stimulate it in this way beyond the point which corresponds to full employment. Thus it is to our best advantage to reduce the rate of interest to that point relatively to the schedule of the marginal efficiency of capital at which there is full employment.

There can be no doubt that this criterion will lead to a much lower rate of interest than has ruled hitherto; and, so far as one can guess at the schedules of the marginal efficiency of capital corresponding to increasing amounts of capital, the rate of interest is likely to fall steadily, if it should be practicable to maintain conditions of more or less continuous full employment—unless, indeed, there is an excessive change in the aggregate propensity to consume (including the State).

I feel sure that the demand for capital is strictly limited in the sense that it would not be difficult to increase the stock of capital up to a point where its marginal efficiency had fallen to a very low figure. This would not mean that the use of capital instruments would cost almost nothing, but only that the return from them would have to cover little more than their exhaustion by wastage and obsolescence together with some margin to cover risk and the exercise of skill and judgment. In short, the aggregate return from durable goods in the course of their life would, as in the case of short-lived goods, just cover their labour-costs of production *plus* an allowance for risk and the costs of skill and supervision.

Now, though this state of affairs would be quite compatible with some measure of individualism, yet it would mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital. Interest to-day rewards no genuine sacrifice, any more than does the rent of land. The owner of capital can obtain interest because

capital is scarce, just as the owner of land can obtain rent because land is scarce. But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital. An intrinsic reason for such scarcity, in the sense of a genuine sacrifice which could only be called forth by the offer of a reward in the shape of interest, would not exist, in the long run, except in the event of the individual propensity to consume proving to be of such a character that net saving in conditions of full employment comes to an end before capital has become sufficiently abundant. But even so, it will still be possible for communal saving through the agency of the State to be maintained at a level which will allow the growth of capital up to the point where it ceases to be scarce.

I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work. And with the disappearance of its rentier aspect much else in it besides will suffer a sea-change. It will be, moreover, a great advantage of the order of events which I am advocating, that the euthanasia of the rentier, of the functionless investor, will be nothing sudden, merely a gradual but prolonged continuance of what we have seen recently in Great Britain, and will need no revolution.

Thus we might aim in practice (there being nothing in this which is unattainable) at an increase in the volume of capital until it ceases to be scarce, so that the functionless investor will no longer receive a bonus; and at a scheme of direct taxation which allows the intelligence and determination and executive skill of the financier, the entrepreneur *et hoc genus omne* (who are certainly so fond of their craft that their labour could be obtained much cheaper than at present), to be harnessed to the service of the community on reasonable terms of reward.

At the same time we must recognise that only experience can show how far the common will, embodied in the policy of the State, ought to be directed to increasing and supplementing the inducement to invest; and how far it is safe to stimulate the average propensity to consume, without forgoing our aim of depriving capital of its scarcity-value within one or two generations. It may turn out that the propensity to consume will be so easily strengthened by the effects of a falling rate of interest, that full employment can be reached with a rate of accumulation little greater than at present. In this event a scheme for the higher taxation of large incomes and inheritances might be open to the objection that it would lead to full employment with a rate of accumulation which was reduced considerably below the current level. I must not be supposed to deny the pos-

sibility, or even the probability, of this outcome. For in such matters it is rash to predict how the average man will react to a changed environment. If, however, it should prove easy to secure an approximation to full employment with a rate of accumulation not much greater than at present, an outstanding problem will at least have been solved. And it would remain for separate decision on what scale and by what means it is right and reasonable to call on the living generation to restrict their consumption, so as to establish, in course of time, a state of full investment for their successors.

III

In some other respects the foregoing theory is moderately conservative in its implications. For whilst it indicates the vital importance of establishing certain central controls in matters which are now left in the main to individual initiative, there are wide fields of activity which are unaffected. The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways. Furthermore, it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment. I conceive, therefore, that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative. But beyond this no obvious case is made out for a system of State Socialism which would embrace most of the economic life of the community. It is not the ownership of the instruments of production which it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary. Moreover, the necessary measures of socialisation can be introduced gradually and without a break in the general traditions of society.

Our criticism of the accepted classical theory of economics has consisted not so much in finding logical flaws in its analysis as in pointing out that its tacit assumptions are seldom or never satisfied, with the result that it cannot solve the economic problems of the actual world. But if our central controls succeed in establishing an aggregate volume of output corresponding to full employment as nearly as is practicable, the classical theory comes into its own again from this point

onwards. If we suppose the volume of output to be given, *i.e.* to be determined by forces outside the classical scheme of thought, then there is no objection to be raised against the classical analysis of the manner in which private self-interest will determine what in particular is produced, in what proportions the factors of production will be combined to produce it, and how the value of the final product will be distributed between them. Again, if we have dealt otherwise with the problem of thrift, there is no objection to be raised against the modern classical theory as to the degree of consilience between private and public advantage in conditions of perfect and imperfect competition respectively. Thus, apart from the necessity of central controls to bring about an adjustment between the propensity to consume and the inducement to invest, there is no more reason to socialise economic life than there was before.

To put the point concretely, I see no reason to suppose that the existing system seriously misemploys the factors of production which are in use. There are, of course, errors of foresight; but these would not be avoided by centralising decisions. When 9,000,000 men are employed out of 10,000,000 willing and able to work, there is no evidence that the labour of these 9,000,000 men is misdirected. The complaint against the present system is not that these 9,000,000 men ought to be employed on different tasks, but that tasks should be available for the remaining 1,000,000 men. It is in determining the volume, not the direction, of actual employment that the existing system has broken down.

Thus I agree with Gesell that the result of filling in the gaps in the classical theory is not to dispose of the "Manchester System," but to indicate the nature of the environment which the free play of economic forces requires if it is to realise the full potentialities of production. The central controls necessary to ensure full employment will, of course, involve a large extension of the traditional functions of government. Furthermore, the modern classical theory has itself called attention to various conditions in which the free play of economic forces may need to be curbed or guided. But there will still remain a wide field for the exercise of private initiative and responsibility. Within this field the traditional advantages of individualism will still hold good.

Let us stop for a moment to remind ourselves what these advantages are. They are partly advantages of efficiency—the advantages of decentralisation and of the play of self-interest. The advantage to efficiency of the decentralisation of decisions and of individual re-

sponsibility is even greater, perhaps, than the nineteenth century supposed; and the reaction against the appeal to self-interest may have gone too far. But, above all, individualism, if it can be purged of its defects and its abuses, is the best safeguard of personal liberty in the sense that, compared with any other system, it greatly widens the field for the exercise of personal choice. It is also the best safeguard of the variety of life, which emerges precisely from this extended field of personal choice, and the loss of which is the greatest of all the losses of the homogeneous or totalitarian state. For this variety preserves the traditions which embody the most secure and successful choices of former generations; it colours the present with the diversification of its fancy; and, being the handmaid of experiment as well as of tradition and of fancy, it is the most powerful instrument to better the future.

Whilst, therefore, the enlargement of the functions of government, involved in the task of adjusting to one another the propensity to consume and the inducement to invest, would seem to a nineteenth-century publicist or to a contemporary American financier to be a terrific encroachment on individualism, I defend it, on the contrary, both as the only practicable means of avoiding the destruction of existing economic forms in their entirety and as the condition of the successful functioning of individual initiative.

For if effective demand is deficient, not only is the public scandal of wasted resources intolerable, but the individual enterpriser who seeks to bring these resources into action is operating with the odds loaded against him. The game of hazard which he plays is furnished with many zeros, so that the players *as a whole* will lose if they have the energy and hope to deal all the cards. Hitherto the increment of the world's wealth has fallen short of the aggregate of positive individual savings; and the difference has been made up by the losses of those whose courage and initiative have not been supplemented by exceptional skill or unusual good fortune. But if effective demand is adequate, average skill and average good fortune will be enough.

The authoritarian state systems of today seem to solve the problem of unemployment at the expense of efficiency and of freedom. It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated—and, in my opinion, inevitably associated—with present-day capitalistic individualism. But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom.

IV

I have mentioned in passing that the new system might be more favourable to peace than the old has been. It is worth while to repeat and emphasise that aspect.

War has several causes. Dictators and others such, to whom war offers, in expectation at least, a pleasurable excitement, find it easy to work on the natural bellicosity of their peoples. But, over and above this, facilitating their task of fanning the popular flame, are the economic causes of war, namely, the pressure of population and the competitive struggle for markets. It is the second factor, which probably played a predominant part in the nineteenth century, and might again, that is germane to this discussion.

I have pointed out in the preceding chapter that, under the system of domestic *laissez-faire* and an international gold standard such as was orthodox in the latter half of the nineteenth century, there was no means open to a government whereby to mitigate economic distress at home except through the competitive struggle for markets. For all measures helpful to a state of chronic or intermittent unemployment were ruled out, except measures to improve the balance of trade on income account.

Thus, whilst economists were accustomed to applaud the prevailing international system as furnishing the fruits of the international division of labour and harmonising at the same time the interests of different nations, there lay concealed a less benign influence; and those statesmen were moved by common sense and a correct apprehension of the true course of events, who believed that if a rich, old country were to neglect the struggle for markets its prosperity would droop and fail. But if nations can learn to provide themselves with full employment by their domestic policy (and, we must add, if they can also attain equilibrium in the trend of their population), there need be no important economic forces calculated to set the interest of one country against that of its neighbours. There would still be room for the international division of labour and for international lending in appropriate conditions. But there would no longer be a pressing motive why one country need force its wares on another or repulse the offerings of its neighbour, not because this was necessary to enable it to pay for what it wished to purchase, but with the express object of upsetting the equilibrium of payments so as to develop a balance of trade in its own favour. International trade would cease to be what it is, namely, a desperate expedient to maintain em-

ployment at home by forcing sales on foreign markets and restricting purchases, which, if successful, will merely shift the problem of unemployment to the neighbour which is worsted in the struggle, but a willing and unimpeded exchange of goods and services in conditions of mutual advantage.

V

Is the fulfilment of these ideas a visionary hope? Have they insufficient roots in the motives which govern the evolution of political society? Are the interests which they will thwart stronger and more obvious than those which they will serve?

I do not attempt an answer in this place. It would need a volume of a different character from this one to indicate even in outline the practical measures in which they might be gradually clothed. But if the ideas are correct—an hypothesis on which the author himself must necessarily base what he writes—it would be a mistake, I predict, to dispute their potency over a period of time. At the present moment people are unusually expectant of a more fundamental diagnosis; more particularly ready to receive it; eager to try it out, if it should be even plausible. But apart from this contemporary mood, the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.

John Kenneth Galbraith

1908–

John Kenneth Galbraith on leave from the Harvard economics faculty is a Canadian-born writer, journalist, public official, and economist, who has in recent years delighted in provoking his colleagues and arousing public controversy on issues that economists generally prefer to reserve for professional debate. The fortunate owner of a graceful, epigrammatic literary style, he deployed it to maximum advantage first in American Capitalism *and more recently in* The Affluent Society. *The latter is said to be one of that large number of books that have influenced the thought of President Kennedy. The President may have shown his gratitude by appointing Mr. Galbraith American Ambassador to India.*

In American Capitalism *Galbraith argues that because economists have traditionally concentrated upon competition among sellers of the same product, they have neglected the actual locus of restraint even upon the largest of sellers. Thus, the restraints upon General Motors may actually come less from weaker rivals like Ford and Chrysler than from the giant organization that represesnts its employees, The United Automobile Workers of America. Again, the check upon RCA Victor may come as much from the capacity of Macy's to sell television sests under its own label, at its own prices, as from the activity of rival producers of television receivers. Galbraith is convinced that large original power in the private market is likely to call up substantial countervailing power which checks it, just as the response to the giant corporation has proved to be the giant union. The government itself is an ultimate source of countervailing power. In a sense Galbraith has offered an up-to-date sophisticated version of the old classical doctrine that the market diffuses and renders harmless economic power. Although modern centers of power are more sizable*

and less numerous than the classical economists envisaged, they turn out to be much less powerful than their ostensible magnitude implies. Professional comment has run the usual range from the declaration that Galbraith has done no more than restate the economic theory of bilateral monopoly to severe criticism of his historical instances and his analytical conclusions. The sharpest (and the most amusing) criticism is George Stigler's "The Economist Plays with Blocs" in the American Economic Review, *May 1954.*

In the spirit of Thorstein Veblen and R. H. Tawney, Galbraith's The Affluent Society *is a savage attack upon the way we spend our money. Its central demonstration contains the analytical proposition that we spend far too much of the national income on trivial items whose marginal utility is very low (even approaching zero) and far too little on items of social overhead—parks, schools, museums, urban development, art, and music, whose marginal utility is much higher. While Galbraith's criticism is not in itself novel, some of the inferences that he draws from it are novel. In contrast to the attitudes of most liberal economists of the 1960's, he considers emphasis upon economic growth misplaced. The need is reallocation rather than expansion of present misplaced production. Again in opposition to liberals, he favors a sales tax on the grounds that such a tax is the readiest source of financing of public improvements and that the major benefits from its collection will flow to the poor and uneducated. Conservatives have also attacked Galbraith principally on the ground that he appears to interfere with the personal freedom of consumers to allocate their incomes as they choose. In the current world of economic orthodoxy, Galbraith's major heresy may well be his willingness to appeal to value judgment rather than mere statistical evidence. The selection from* The Affluent Society *that follows contains yet another of his novelties, a proposal to vary unemployment compensation according to the phases of the business cycle.*

The first selection is drawn from American Capitalism, *copyright, ©, 1952, by John Kenneth Galbraith (Boston: Houghton Mifflin, 1952). The second comes from* The Affluent Society, *copyright, ©, 1958, by John Kenneth Galbraith (Boston: Houghton Mifflin, 1958).*

Countervailing Power

The role of countervailing power in the economy marks out two broad problems in policy for the government. In all but conditions of

inflationary demand, countervailing power performs a valuable—indeed an indispensable—regulatory function in the modern economy. Accordingly it is incumbent upon government to give it freedom to develop and to determine how it may best do so. The government also faces the question of where and how it will affirmatively support the development of countervailing power. It will be convenient to look first at the negative role of the government in allowing the development of countervailing power and then to consider its affirmative role in promoting it.

At the outset a somewhat general distinction—one that is implicit in the discussion of the last chapter—must be made between countervailing and original power.* When, anywhere in the course of producing, processing or distributing a particular product, one or a few firms first succeed in establishing a strong market position they may be considered to be the possessors of original market power. They are able, as the result of their power over the prices they pay or charge, to obtain more than normal margins and profits.† These are at the expense of the weaker suppliers or customers. This is the monopoly position anciently feared by liberals and as anciently condemned by economists. Their instincts were sound. Countervailing power invades such positions of strength, whether they be held by suppliers or customers, and obtains a share in the rewards.

The rule to be followed by government is, in principle, a clear one. There can be very good reason for attacking positions of original market power in the economy if these are not effectively offset by countervailing power. There is at least a theoretical justification for opposing all positions of market power. There is no justification for attacking positions of countervailing power which leaves positions of original market power untouched. On the contrary, damage both in equity and to the operation of the economy will be the normal consequence of doing so.

The problems of practical application of such a rule are mostly in the field of the antitrust laws and they are a good deal more difficult than the simple articulation of the rule implies. However a general distinction between original and countervailing power is, in fact, now made in the antitrust laws—it has been forced, against the accepted

* William J. Fellner in his interesting recent book, *Competition among the Few: Oligopoly and Similar Market Structures* (New York: Alfred A. Knopf Co., 1949), observes that the market power of unions, in relation to that of corporations, is of a neutralizing not an additive character. It will be evident, I think, that this involves a distinction similar to the one I am making.

† Technically prices or margins in excess of marginal costs.

current of ideas concerning competition, by the practical reality of the phenomenon itself.

In the first development of positions of market power, a long lead was assumed by industrial corporations. Thus, when workers and farmers sought to develop strength in the sale of their labor power and products, they did so in markets where industrial firms had already achieved positions of original power. It would be broadly in harmony with the distinction between original and countervailing power to exclude labor and farm organizations from prosecution under the antitrust laws. This has been done. While the Sherman Act made no mention of labor, Congress did not have in mind the still modest efforts of unions to lift their bargaining power when it enacted the legislation in 1890. Subsequently, unions became subject to the law by judicial interpretation. Indeed, in the first few decades that the legislation was in effect, unions were a primary target. This led to their exclusion by name in the Clayton Act of 1914. After the Supreme Court had somewhat obdurately reincluded them in 1921 (Justices Brandeis, Holmes and Clarke dissenting) they were again and finally excluded by the Norris-LaGuardia Act of 1932 and by the subsequent and more benign decisions of a New Deal Court.

Similarly, efforts by farm co-operatives to enhance the market power of the farmer, so long as they are held within reason, are excluded by the Clayton Act of 1914, by further legislation (the Capper-Volsted Act) in 1922 and in more specific instances by the Agricultural Marketing Agreement Act of 1937. Congress has thus recognized, implicitly, that the efforts of labor and agriculture to develop market power were different from those of industrial firms. The difference—the only plausible difference—was that these efforts were the response of workers and farmers to the power of those to whom they sold their labor or products.

A more precise and conscious use of the distinction between original and countervailing power would take account of the fact that some trade unions and some farm groups are clearly the possessors of original power. Thus workers in the building trades, although they are not highly organized or exceptionally powerful in any absolute sense, are strong in relation to the small-scale employers with whom they do business. They are clearly the possessors of original market power. The special nature of their power, as compared with that of the trade-union movement generally, explains the distress of men and women who have reacted sympathetically to the role of unions in general but who, in this case, have found themselves on the side of organizations that have plenary power to restrict output and enhance their own

income. The obvious solution lies in the distinction between original and countervailing power. This, logically, would make restrictive practices of master plumbers or plasterers a proper object of interest by the Department of Justice while the absolutely (though not relatively) far more powerful unions in steel or automobiles who impose no similar restrictions on the supply of their labor would not be.*

Similarly, there are undoubted cases of exercise of original power by groups of agricultural producers. The immunity granted by existing law is not complete—the Secretary of Agriculture is authorized to enter a complaint if, as result of the activities of the co-operative, prices are "unduly enhanced," and a co-operative cannot merge its power with non-agricultural corporations. As a result there have been a scattering of prosecutions of farmer's organizations—of the California Fruit Growers' Exchange (Sunkist Oranges) and of a Chicago milkshed producers' organization in combination with distributors, unions and even a college professor. But such cases have been infrequent.

However, the more serious consequences of the failure to perceive the role of countervailing power have been within the fabric of industry itself. The antitrust laws have been indiscriminately invoked against firms that have succeeded in building countervailing power, while holders of original market power, against whom the countervailing power was developed, have gone unchallenged. Such action has placed the authority of law on the side of positions of monopoly power and against the interests of the public at large. The effects have been damaging to the economy and also to the prestige of the antitrust laws.

As the last chapter has made clear, one of the most important instruments for exercise of countervailing power is the large retail organization. These are the public's main line of defense against the market power of those who produce or process consumers' goods. They are an American counterpart—and without doubt an effective one—of the consumer co-operatives which, in other countries, are viewed as an instrument for countering the power of the cartels. Yet the position of the large retail organizations has been not only a gen-

* Again, government policy has shown a tendency to recognize, pragmatically, distinctions which are not recognized in the available theory. In 1940 the original power of the building trades unions was attacked by the Department of Justice. However, by eventual decision of the Supreme Court—*U.S. v. Hutcheson et al.*, 312 U.S. 219 (1940)—the unions were held to be substantially immune.

eral, but also in some measure a unique object of government attack. Chain stores and other large buyers have been frequent recent objects of Sherman Act prosecution and are the special target of the Robinson-Patman Act which is especially designed to inhibit their exercise of countervailing power.

Under the provisions of the Robinson-Patman Act a chain store may receive the benefit of the demonstrably lower costs of filling the large orders which it places; it may not receive concessions that are the result of its superior bargaining power. The effect, since these concessions are important only when won from positions of original economic power, is to discriminate in favor of original power and against countervailing power.

The effects of failure to distinguish between original and countervailing power have been especially noteworthy in the several suits against the Great Atlantic and Pacific Tea Company. This company was prosecuted before the war for violation of the Robinson-Patman Act,* was convicted of violation of the Sherman Act in a case brought in 1944 and finally decided in 1949† and is defendant in a further action now before the courts. In spite of its many legal misadventures, the company has not been charged with, or even seriously suspected of, exploiting the consumer. On the contrary, its crime has been too vigorous bargaining, which bargaining was, effectively, on the consumer's behalf. In the case brought in 1944 it was charged with seeking to increase its volume by reducing its margins and with bringing its bargaining power too vigorously to bear upon its suppliers in order to get price reductions. These suppliers—which included such powerful sellers as the large canning companies—had long been involved in a trial of strength with A & P over prices. They were left undisturbed. The government was in the highly equivocal position of prosecuting activities which have the effect of keeping down prices to the consumer. The positions of market power, which had given A & P its opportunity, were left untouched.

The litigation against A & P has been strongly defended. Although the firm does rather less than ten per cent of the food-retailing business, has strong rivals, and is in an industry where the entry of new firms is singularly easy, much stress has been laid on the danger that it might achieve an effective monopoly of food-retailing. Nevertheless

* *Great Atlantic & Pacific Tea Co. v. FTC*, 106 F. 2d 667 (1939).

† *U.S. v. New York Great Atlantic & Pacific Tea Co.*, 67 F. Supplement 626 (1946). For a discussion of this case see M. A. Adelman, "The A & P Case: A Study in Applied Economic Theory," *Quarterly Journal of Economics* (May 1949), pp. 238ff.

one can hardly doubt that these cases have been a source of serious embarrassment to friends of the antitrust laws. No explanation, however elaborate, can quite conceal the fact that the effect of antitrust enforcement, in this case, is to the disadvantage of the public. Viewed in light of the present analysis the reason becomes evident. The prosecution by inhibiting the exercise of countervailing power provides protection to the very positions of market power that are anathema to the defender of the antitrust laws.*

No one should conclude, from the foregoing, that an exemption of countervailing power should now be written into the antitrust laws. A considerable gap has always separated useful economic concepts from applicable legal ones. However, a number of conclusions, with immediate bearing on the antitrust laws, do follow from this analysis. In the first place the mere possession and exercise of market power is not a useful criterion for antitrust action. The further and very practical question must be asked: Against whom and for what purposes is the power being exercised? Unless this question is asked and the answer makes clear that the public is the victim, the antitrust laws, by attacking countervailing power, can as well enhance as reduce monopoly power.

Secondly, it is clear that serious damage can be done to the economy by such legislation as the Robinson-Patman Act. This legislation is the culmination of a long and confused legal and legislative struggle dating from 1914 over what economists have come to call price discrimination. The ostensible motive of the legislation is to protect competition. The seller is prevented from giving a lower price to one customer than to another where the lower price cannot be justified by the economies associated with the particular sale and where the effect is "to injure, destroy, or prevent" competition either with the seller or between his customers. The practical effect, rein-

* Much of the pressure for the Robinson-Patman Act and its enforcement (and in lesser measure also the state Fair Trade laws which have a similar ultimate effect) came and continues to come from the smaller competitors of the chains who do not themselves have effective countervailing power. They have, in effect, sought to protect their own weaker buying position by denying strength to others. This is wholly understandable but it has not been the only recourse of the independent. He has had the alternative of joining his bargaining power, as a buyer, with other independents. And, in some fields—food-retailing and department stores for example—such cooperative bargaining has enjoyed a large measure of success. A clearer view of original and countervailing power by public authority would also have made this the perferred way of protecting the position of the independent retailer.

forced by recent court decisions, is to make any important price concessions to any large buyer of questionable legality.*

Even those who are unwavering in their belief in competition have been inclined to doubt whether this legislation does much to protect competition. What is not doubtful at all is that the legislation strikes directly at the effective exercise of countervailing power. To achieve price discrimination—to use bargaining power to get a differentially lower price—is the very essence of the exercise of countervailing power. In trying, with questionable effect, to preserve one of the autonomous regulators of the economy the government is seriously impairing another.

Finally, the theory of countervailing power throws important light on the advantage of different numbers of firms in an industry and on the objectives of the antitrust laws in relation thereto. One of the effects of the new ideas on market theory, as noted in Chapter IV, was to raise serious doubts whether an industry of small numbers was, in fact, socially preferable to a monopoly. Once firms had recognized their interdependence, it was believed that they would find a price, output and profit position not greatly different from that which would be achieved by a single firm. This made it doubtful whether it was worth while to prosecute a monopoly in order to create an oligopoly.

The high technical dynamic of the typical industry that is shared by a few firms will already have raised some questions about this conclusion. There is reason to suppose that such an industry will be more progressive than an industry controlled by one. Recognition of the role of countervailing power suggests a further clear advantage on the side of the oligopoly. One can hardly doubt that, in general, it will be much easier for countervailing power to break into a position of market strength maintained by an imperfect coalition of three, four or a dozen firms than into a position held by one firm. When there is more than one firm in a market there are opportunities for playing one off against another. Such opportunities abruptly disappear when the number is reduced to one.

Thus the theory of countervailing power comes to the defense of the antitrust laws at what has been a very vulnerable point. Efforts to prevent or to disperse single-firm control of an industry can be de-

* Especially *FTC v. Morton Salt Company*, 334 U.S. 37 (1948) although a still more recent decision makes legitimate concessions to meet the price of another seller (*Standard Oil of Indiana v. FTC*, 71 E. Ct. 240, 1951).

fended for the greater opening they provide for the exercise of countervailing power. Similar and equally good reasons exist for resisting mergers. Those who have always believed there was something uniquely evil about monopoly are at least partly redeemed by the theory of countervailing power.

Cyclically Graduated Compensation

The clear answer, therefore, is that unemployment compensation should be increased as unemployment increases and should be diminished as full employment is approached. It will be convenient to have a name for such a system, and we may call it Cyclically Graduated Compensation* or more conveniently by the initials CGC. It would not be difficult to design, and it represents an essential advance over the present static system. Indeed it is hard to think of a single measure of economic reform that would have more satisfactory effect. Apart from breaking the connection between output and economic security, of the importance of which more will be said presently, it would largely eliminate the hazard of depression unemployment for the worker. By stabilizing demand it would go far to mitigate the threat of depression. At the same time there would be no addition to the inflationary pressures at full employment and no interference, at such times, with the search for jobs. To the extent that malingering is induced by high rates of unemployment compensation this problem disappears. When jobs are plentiful, there would be no incentive to such idleness, for compensation would be relatively low. When jobs are unavailable, no useful distinction can be made between those who are voluntarily and those who are involuntarily unemployed. Neither can find work.

IV

The administration of the present system of unemployment compensation by the individual states, together with its commitment to the principle of insurance and reserves and the use of merit ratings, has made it notably inflexible. Changes in the level and duration of compensation come slowly as the result of action by the individual state legislatures. To get CGC by state action would be quite hopeless.

* The reference to the business cycle here is not to the ancient rhythmic movement but rather to changes in the level of demand and employment of whatever nature and however induced.

Fortunately this is not necessary or desirable. The present system, administered by the states and with the present differentials between states, should continue to provide the basic payment.* CGC should be a purely federal enterprise. Economic policy relating to the level of economic output is now a recognized federal responsibility. The federal government is accountable. *Pro tanto,* the unemployment associated with changes in output is a federal responsibility. Since such unemployment has no conceivable actuarial aspect, it should be a current budgetary charge. When seasonally adjusted unemployment remains above the level which represents the amount necessarily associated with full employment for a specified period of time, the federal supplement would become payable. This would take the form of a specified fraction of the difference between the worker's weekly earnings over a period in his last employment and his entitlement under established unemployment compensation. By way of illustration, if it is assumed that 2.0 million is the maximum amount of unemployment associated with full employment—i.e., the maximum amount attributable to seasonal idleness, those engaged in changing jobs and the others for whom unemployment is a short-term affair—CGC would be paid in the amount of say half the difference between standard unemployment compensation and the individual's last wage. When unemployment passed 3.0 million, the CGC payment would rise to two-thirds and perhaps at 4 million to a top of four-fifths of the difference. At this point the worker who earned the average 1956 weekly wage of $80, and who was entitled to a regular (and comparatively generous) payment in that year of $36, would have a total weekly income of $71.20. Of this $35.20 would be from CGC. (The surviving difference represents the continuing concession to the Puritan principle that leisure should be less amply rewarded than work.) Moreover although under CGC the unemployment and the employed wage can come very close together, and this is a central virtue of the device, the differential in favor of the employed wage cannot be entirely eliminated. The normal, if surprising preference of people for work ought, no doubt, to be reinforced by a pecuniary incentive so that if a job is available a man can be depended upon to take it.

The present limitation on the number of weeks for which compensation may be paid is based on the belief that the individual can, given time and effort, find a new job. This is true of short-term unemployment—the unemployment that is incidental to changing de-

* However more satisfactory Federal standards would be required. They are needed in any case.

mand for workers under conditions of full employment and ample job opportunities. It is not the case of unemployment which is caused by shifts in the level of output that are beyond the power of the individual worker, by his own effort, to correct. Therefore the worker should be entitled to compensation for this type of unemployment for as long as it lasts. In other words, as long as unemployment continues above the specified levels, the total of the CGC and the regular payments should continue. The extra cost, beyond the normal period of eligibility, is also logically a federal responsibility.

When aggregate demand in the economy falls below the level that employs the entire labor force, the resulting unemployment does not distribute itself uniformly across the country. Depending on their industries some areas and communities are seriously affected; in others the impact is slight. To the worker who lives in a town where 50 per cent of the working force is unemployed, it is not entirely reassuring to know that over the country as a whole the average unemployment is comparatively low. The question will arise as to whether CGC might have a regional or local adjustment. Might it not be declared in effect in an area or community of high unemployment even though the national unemployment is above the minimum? The advantage of cautious steps in this direction will be evident. It would make CGC more effective in the areas afflicted by unemployment; it would minimize its competition with jobs in those areas that are not. The danger is that it will interfere with interregional migration in search of employment. But this, we have seen, is no longer subject to the imperatives of a poor society. A system of regional or local adjustments would be a logical development.

There will be objection that once the rates are advanced to the level associated with a higher volume of unemployment, the pressure of unions and voters generally will be against their reduction even as unemployment declines. This may be so. It is unhappily impossible in a democratic society to think of a single measure for the improvement of social well-being which is not subject to subversion by ill-conceived minority or even majority pressures. The post office, not precisely a novelty among institutions of civilized government, continues to be subject to the efforts of citizens to have it carry their mail if not for nothing at least for a minor fraction of the cost. But the principles of CGC are well within the range of popular understanding which is rarely as low as ordinarily assumed. Compensation can be high when unemployment is substantial only because it is low when unemployment is low. Then it does not keep people from taking jobs. Nor does it put pressure on wage rates by forcing employers to bid

against high compensation levels. These are not matters that are difficult to grasp. Those who believe so almost certainly underrate the intelligence and responsibility of union leaders, the rank and file, and of workers generally.

V

As matters now stand there is but one point at which the American economy can function. That is the level at which virtually the full labor force is employed. This, we have seen, is a point of considerable tension. The synthesis of consumer wants must proceed at a high and what could be a breakneck rate. At full employment the economy is patently unstable. Prices move relentlessly upward. But if production is much below the full employment level, a drastic reduction in income is visited on those who are unable to find jobs. This is taken as a serious indication of economic failure, and is.

With CGC we widen the band within which the economy can function. This we do by insuring that no particular group of people is singled out for misfortune when demand falls below full employment levels. The manifest unfairness of doing so now excludes unemployment as a policy. Or, to put the matter differently, we are seeking to insure that there is a range of output over which the economy can function which accords with the imperfect and awkward instruments available to regulate the level of output. At present the problem of keeping the economy at full employment levels and avoiding inflation is roughly equivalent to asking a reluctant surgeon to do a lobotomy with a spade. In addition, CGC helps insure that mild unemployment will not become serious unemployment. It adds to purchasing power and demand as unemployment increases and to the labor force as unemployment declines.

Those who are appalled by a measure which seems to give sanction to unemployment should bear several facts in mind. The unemployment here being tolerated is at the margin. The total civilian labor force in 1956 was 67.5 millions. Subject to considerations to be mentioned in a moment, economic management requires an operating margin of possible unemployment of up to perhaps four million. There are no longer grounds for contending that the goods produced by these workers are of urgent importance. Given the stigmata anciently associated with idleness, the effect of this unemployment on those affected may be a more serious matter.

However, as usual in economic affairs, the goal is not perfection but the best that can be managed. CGC represents a marked im-

provement over the present situation. It offers the prospect of a sufficient operating margin for price stablity. It compensates the unemployment associated with this margin, whereas such unemployment may now occur anyway and without effective compensation. By adding a new and important automatic stabilizer, it helps to insure that the unemployment associated with stability will not become the more serious unemployment associated with depression. This requires a special word.

Through increased public outlays and through the reduction or remission of taxes, we have at hand measures for dealing with a deficiency in aggregate demand and thus with depression. The use of these measures is not in conflict with other social goals and for this reason depression, in contrast with inflation, is not an intractable problem of the affluent society. Nonetheless, it remains the major threat to economic security. In particular, private spending can fall away more rapidly than fiscal measures can provide a substitute. Hence there is always danger of painful unemployment while corrective action is getting under way or overtaking a deflationary spiral. This is made more probable because of the inevitability of debate over whether the time has arrived for deliberate fiscal action—for spending or tax reduction—and the omnipresent hope that if things are left alone recovery will come anyway. We have also seen that the danger of the downward spiral has been enhanced by the modern process of consumer demand and debt creation.

CGC is not a substitute for other fiscal measures. But it does insure comparative stability in wage income. This is a large sector of total income. It is also the one which is most threatened by the large commitment to consumer debt, i.e., it is here that in the event of deflation there is danger of a large cut in current spending as people seek to maintain their debt service. Most important, CGC elides the danger, indeed the near certainty, of delay that is implicit in deliberate fiscal action.

Our need is for a measure which enables us to escape the tensions that are inevitable in the present imperative to produce at capacity, and the hazards in trying to do so, while improving our defenses against more serious unemployment. All of this is accomplished by lifting the level of compensation as employment recedes and as unemployment changes its basic character from an incident in job transfer, to a source of requisite slack for price stability, to a basic threat to economic security.

To repeat, all this implies a lessened pressure on the labor force.

It implies that a small amount of unemployment will, in a degree, be considered normal.

In recent years there has been the beginning of a discussion of the four-day week. In 1956 it was formally advanced as a prospect by the Republican candidate for the Vice-presidency, Mr. Richard M. Nixon. This discussion tacitly accepts the fact that we do not urgently need the goods that are produced on the other two or three. Perhaps the problem of adjusting to three days' leisure a week are not greatly less serious than those of adjusting to rather longer periods —properly paid, it is again to be recalled—at intervals during a lifetime.

Part VI

THE ECONOMICS OF REVOLUTION

Karl Marx

1818–1883

Karl Marx and Friedrich Engels, his devoted co-worker, invariably took pains to distinguish their version of socialism, which they considered scientific, from the socialism of Fourier, Saint-Simon, and Owen, which they regarded as utopian. The utopian dreams noble dreams but fails lamentably to construct a bridge between today's unattractive realities and tomorrow's better life. The utopian wishes but does not analyze, he hopes but offers no program of action. In contrast, the scientific socialist bases his aspirations upon a close study of the society of today, industrial capitalism, and describes the future society as an extension of the class struggles and the economic contradictions which are the defining realities of the contemporary scene.

Indeed, one of the great sources of power in Capital *is the brutal concreteness of detail—the endless brutalities of the factory system, the greed of capitalists, the exploitation of children, the ignorance of the factory workers, and the sordidness and alienation of working-class life. Much of the first volume of* Capital *is devoted to this recital. Yet, a close reader will be left with a question. Throughout this volume (the assumption is not amended until Volume III) Marx reiterates the proposition that in competitive, capitalist markets all commodities exchange at their value. Value is measured by the amount of labor needed to produce a commodity. Since even human labor-power, the worker's capacity to work, is a commodity, it too must exchange at its value. That value can be measured by determining the quantity of labor required to produce the necessities of life for the laborer and his family. Or, to translate Marx's position into the language of classical economics, wages will tend to approach subsistence. But if, despite all Marx's indignation against capitalists, the*

laborer after all is paid the value of his labor-power, in what does exploitation consist? Marx's answer in part rests upon a crucial distinction between labor-power, the worker's physical ability to work during a given span of time, and labor as value. Labor-power, it develops, is a unique commodity, capable alone of producing value. If hours of labor are actually value, then the laborer is capable of producing more value in the course of a working day than is required to keep him alive or, in Marxian language, to purchase his labor-power. The difference between the value that the laborer produces and the amount that is devoted to his own necessities is surplus-value, the single source of the capitalist's profits, interest, and rent.

How does the capitalist arrive at the historical situation that enables him to derive surplus-value from the exploitation of human labor-power? The remainder of Marx's answer to any query about the justice of capitalism is contained in his description of the way in which capitalism acquired the tools and the factories which compel workers to accept employment for wages. "Primitive accumulation," as Marx puts the case, ". . . comprises a series of forcible methods. . . . The expropriation of the immediate producers was accomplished with merciless Vandalism, and under the stimulus of passions the most infamous, the most sordid, the pettiest, the most meanly odious." Which is to say that the small peasant and the self-employed artisan could be separated from their land and their tools, and placed at the mercy of capitalists only by methods that combined in efficacious proportions force and fraud.

But industrial capitalism is itself only a stage in human history. As capitalism matures, the contradictions in its nature lead to increasing economic crisis, the disappearance of the middle class, the growing misery of the working class, the disappearance of the small capitalist and the growing size of the big capitalist, a falling rate of profit, and an ever more desperate search for markets. It is one of the grim paradoxes of Marxism that the capitalist himself trains the proletariat for the eventual revolutionary transformation of capitalist society. In the factory, the worker learns social co-operation, in the unsuccessful strike he acquires a revolutionary ideology, in the misery and unemployment of his life he learns to hate capitalism.

The result is inevitable. Capitalist production begins to founder. Where once it liberated the economic capacities of its society, now it becomes a "fetter" upon further expansion. Marx's final words, in their way, sing a triumphant song: "Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integu-

ment is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated."

The selection is taken from Volume I of Capital, *translated by Samuel Moore and Edward Aveling (New York: Modern Library), pp. 834-7.*

Primitive Accumulation

What does the primitive accumulation of capital, *i.e.*, its historical genesis, resolve itself into? In so far as it is not immediate transformation of slaves and serfs into wage-labourers, and therefore a mere change of form, it only means the expropriation of the immediate producers, *i.e.*, the dissolution of private property based on the labour of its owner. Private property, as the antithesis to social, collective property, exists only where the means of labour and the external conditions of labour belong to private individuals. But according as these private individuals are labourers or not labourers, private property has a different character. The numberless shades, that it at first sight presents, correspond to the intermediate stages lying between these two extremes. The private property of the labourer in his means of production is the foundation of petty industry, whether agricultural, manufacturing or both; petty industry, again, is an essential condition for the development of social production and of the free individuality of the labourer himself. Of course, this petty mode of production exists also under slavery, serfdom, and other states of dependence. But it flourishes, it lets loose its whole energy, it attains its adequate classical form, only where the labourer is the private owner of his own means of labour set in action by himself: the peasant of the land which he cultivates, the artizan of the tool which he handles as a virtuoso. This mode of production pre-supposes parcelling of the soil, and scattering of the other means of production. As it excludes the concentration of these means of production, so also it excludes cooperation, division of labour within each separate process of production, the control over, and the productive application of the forces of Nature by society, and the free development of the social productive powers. It is compatible only with a system of production, and a society, moving within narrow and more or less primitive bounds. To perpetuate it would be, as Pecqueur rightly says, "to decree universal mediocrity." At a certain stage of development it brings forth the material agencies for its own dissolution. From that moment new forces and new passions spring up in the bosom of society; but

the old social organisation fetters them and keeps them down. It must be annihilated; it is annihilated. Its annihilation, the transformation of the individualised and scattered means of production into socially concentrated ones, of the pigmy property of the many into the huge property of the few, the expropriation of the great mass of the people from the soil, from the means of subsistence, and from the means of labour, this fearful and painful expropriation of the mass of the people forms the prelude to the history of capital. It comprises a series of forcible methods, of which we have passed in review only those that have been epoch-making as methods of the primitive accumulation of capital. The expropriation of the immediate producers was accomplished with merciless Vandalism, and under the stimulus of passions the most infamous, the most sordid, the pettiest, the most meanly odious. Self-earned private property, that is based, so to say, on the fusing together of the isolated, independent labouring-individual with the conditions of his labour, is supplanted by capitalistic private property, which rests on exploitation of the nominally free labour of others, *i.e.*, on wages-labour.*

As soon as this process of transformation has sufficiently decomposed the old society from top to bottom, as soon as the labourers are turned into proletarians, their means of labour into capital, as soon as the capitalist mode of production stands on its own feet, then the further socialisation of labour and further transformation of the land and other means of production into socially exploited and, therefore, common means of production, as well as the further expropriation of private proprietors, takes a new form. That which is now to be expropriated is no longer the labourer working for himself, but the capitalist exploiting many labourers. This expropriation is accomplished by the action of the immanent laws of capitalistic production itself, by the centralisation of capital. One capitalist always kills many. Hand in hand with this centralisation, or this expropriation of many capitalists by few, develop, on an ever extending scale, the cooperative form of the labour-process, the conscious technical application of science, the methodical cultivation of the soil, the transformation of the instruments of labour into instruments of labour only usable in common, the economising of all means of production by their use as the means of production of combined, socialised labour, the entanglement of all peoples in the net of the world-market, and this, the international character of the capitalistic régime. Along with the con-

* "Nous sommes dans une condition tout-à-fait nouvelle de la société . . . nous tendons à séparer toute espèce de propriété d'avec toute espèce de travail." (Sismondi: Nouveau Principes de l'Econ. Polit. t. II., p. 434.)

stantly diminishing number of the magnates of capital, who usurp and monopolise all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working-class, a class always increasing in numbers, and disciplined, united, organised by the very mechanism of the process of capitalist production itself. The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with, and under it. Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated.

Michael Bakunin

1814–1876

Born into the Russian nobility, Bakunin as a young man served in the Russian army. But in 1834, when he was only twenty, he resigned his commission and decided to take up the study of philosophy. The stages of his intellectual odyssey began with Hegel, continued with several years (1844-7) of close association with Proudhon, included a flirtation with Marx and Engels, which ended when Marx's friends on the First International of the socialist movement expelled him at the Hague Conference of 1872, and terminated in the formulation of his own anarchist position. Bakunin, a man of action rather than a closet philosopher, in 1848 participated in uprisings in Prague and Dresden. The adventure resulted in his arrest and transfer to Russian authority. Exiled to Siberia in 1857, he escaped in 1861 and made his way to London. In 1870 and 1871 he planned a successful revolt in Lyons.

Bakunin's major disciple was another Russian aristocrat, the saintly Prince Kropotkin. The two shared a hatred of the repressive tendencies of all governments, disbelief in private property (for which the state largely existed), trust in human nature, and what Gide and Rist have called "an almost insane exaltation of the individual." Inevitably, anarchist doctrine, which emphasizes the merits of spontaneity, was weak on all matters of organization. It is never clear how individuals who have the human right to appropriate as much property as they need are to avoid conflict with other human beings endowed by nature with the same right. Nor is it any more obvious how the tedious work of economic exchange is to be performed smoothly.

Anarchism has had little appeal in English-speaking countries. But on the Continent it has at times been a powerful rival to Marxism. Appealing to the Latin temperament, anarchism was influential as late as

the 1930's on the Loyalist side of the Spanish Civil War. In Orwell's affecting Homage to Catalonia, *the only participants in the war who emerge with honor are the members of the anarchist brigade with whom he fought.*

In the passage that follows, the influence of Marx and Proudhon on Bakunin is evident. Like Proudhon, Bakunin believes that the origin of property is theft, and like Marx, he identifies some of the means of primitive accumulation. Again in the Marxist vein, Bakunin isolates class struggle as the inevitable consequence of private property and the repressive state which protects its owners. Even the analysis of economic tendencies in capitalism echoes characteristic Marxist positions: wages will be forced down by capitalist exploitation, the means of production will be increasingly concentrated into fewer and fewer hands; the means of production are fated to outrun the means of consumption. It is easy to see why Bakunin was, even if uneasily, an ally of Marx for so long. It is equally easy to see why the alliance terminated. No doubt the ultimate goal of Marxism was human liberation, but in the meantime Marx ran the communist organizations with an iron hand. The liberty-loving Bakunin could scarcely tolerate dictation from anyone at any time. Expulsion was fated.

This selection is from The Political Philosophy of Bakunin, *edited by G. A. Maximoff, pp. 179-93. Reprinted by permission of the publisher, The Free Press of Glencoe. Copyright, 1953, by The Free Press.*

Property Could Arise Only in the State

The doctrinaire philosophers, as well as the jurists and economists, always assume that property came into existence before the rise of the State, whereas it is clear that the juridical idea of property, as well as family law, could arise historically only in the State, the first inevitable act of which was the establishment of this law and of property.

Property is a god. This god already has its theology (which is called State politics and juridical right) and also its morality, the most adequate expression of which is summed up in the phrase: "This man is worth so much."

The Theology and Metaphysics of Property. The property god also has its metaphysics. It is the science of the bourgeois economists. Like any metaphysics it is a sort of twilight, a compromise between truth and falsehood, with the latter benefiting by it. It seeks to give falsehood the appearance of truth and leads truth to falsehood. Politi-

cal economy seeks to sanctify property through labor and to represent it as the realization, the fruit, of labor. If it succeeds in doing this, it will save property and the bourgeois world. For labor is sacred, and whatever is based upon labor, is good, just, moral, human, legitimate. One's faith, however, must be of the sturdy kind to enable him to swallow this doctrine, for we see the vast majority of workers deprived of all property; and what is more, we have the avowed statements of the economists and their own scientific proofs to the effect that under the present economic organization, which they defend so passionately, the masses *will never come to own property;* that, consequently, their labor does not emancipate and ennoble them, for, all their labor notwithstanding, they are condemned to remain eternally without property—that is, outside of morality and humanity.

Only Non-Productive Labor Yields Property. On the other hand, we see that the richest property owners, and consequently the most worthy, humane, moral, and respectable citizens, are precisely those who work the least or who do not work at all. To that the answer is made that nowadays it is impossible to remain rich—to preserve, and even less so, to increase one's wealth—without working. Well, let us then agree upon the proper use of the term *work:* there is work and work. There is productive labor and there is the labor of exploitation.

The first is the labor of the proletariat; the second that of property owners. He who turns to good account lands cultivated by someone else, simply exploits someone else's labor. And he who increases the value of his capital, whether in industry or in commerce, exploits the labor of others. The banks which grow rich as a result of thousands of credit transactions, the Stock Exchange speculators, the shareholders who get large dividends without raising a finger; Napoleon III, who became so rich that he was able to raise to wealth all his protégés; King William I, who, proud of his victories, is preparing to levy billions upon poor unfortunate France, and who already has become rich and is enriching his soldiers with this plunder—all those people are workers, but what kind of workers! Highway robbers! Thieves and plain ordinary robbers are "workers" to a much greater extent, for in order to get rich in their own way they have to "work" with their own hands.

It is evident to anyone who is not blind about this matter that productive work creates wealth and yields the producers only misery, and that it is only non-productive, exploiting labor that yields property. But since property is morality, it follows that *morality, as the bourgeois understands it, consists in exploiting* someone else's labor.

Property and Capital Are Labor-Exploiting in Their Essence. Is it necessary to repeat here the irrefutable arguments of Socialism which no bourgeois economist has yet succeeded in disproving? *What is property, what is capital, in their present form?* For the capitalist and the property owner they mean the power and the right, guaranteed by the State, to live without working. And since neither property nor capital produces anything when not fertilized by labor—that means the power and the right to live by exploiting the work of someone else, the right to exploit the work of those who possess neither property nor capital and who thus are forced to sell their productive power to the lucky owners of both.

Property and Capital Are Iniquitous in Their Historic Origin and Parasitic in Their Present Functioning. Note that I have left out of account altogether the following question: In what way did property and capital ever fall into the hands of their present owners? This is a question which, when envisaged from the points of view of history, logic, and justice, cannot be answered in any other way but one which would serve as an indictment against the present owners. I shall therefore confine myself here to the statement that property owners and capitalists, *inasmuch as they live not by their own productive labor* but by getting land rent, house rent, interest upon their capital, or by speculation on land, buildings, and capital, or by the commercial and industrial exploitation of the manual labor of the proletariat, all live at the expense of the proletariat. (Speculation and exploitation no doubt also constitute a sort of labor, but altogether non-productive labor.)

The Crucial Test of the Institution of Property. I know only too well that this mode of life is highly esteemed in all the civilized countries, that it is expressly and tenderly protected by all the States, and that the States, religions, and all the juridical laws, both criminal and civil, and all the political governments, monarchic and republican —with their immense judicial and police apparatuses and their standing armies—have no other mission but to consecrate and protect such practices. In the presence of these powerful and respectable authorities I cannot even permit myself to ask whether this mode of life is legitimate from the point of view of human justice, liberty, human equality, and fraternity. I simply ask myself: Under such conditions, are fraternity and equality possible between the exploiter and the exploited, are justice and freedom possible for the exploited?

The Gap in the Theoretic Vindication of Capitalism. Let us even suppose, as it is being maintained by the bourgeois economists and with them all the lawyers, all the worshipers of and believers in the

juridical right, all the priests of the civil and criminal code—let us suppose that this economic relationship between the exploiter and the exploited is altogether legitimate, that it is the inevitable consequence, the product of an eternal, indestructible social law, yet still it will always be true that exploitation precludes brotherhood and equality.

And it goes without saying that such relationship precludes economic equality.

Class Monopoly of Means of Production Is a Basic Evil. Can the emancipation of labor signify any other thing but its deliverance from the yoke of property and capital? And how can we prevent both from dominating and exploiting labor so long as, while separated from labor, they are monopolized by a class which, freed from the necessity of working for a living by virtue of its exclusive use of capital and property, continues to oppress labor by exacting from it land-rent and interest upon capital? That class, drawing its strength from its monopolistic position, takes possession of all the profits of industrial and commercial enterprises, leaving to the workers, who are crushed by the mutual competition for employment into which they are forced, only that which is barely necessary to keep them from starving to death.

No political or juridical law, severe as it may be, can prevent this domination and exploitation, no law can stand up against the power of this deeply rooted fact, no one can prevent this situation from producing its natural results. Hence it follows that so long as property and capital exist on the one hand, and labor on the other hand, the first constituting the bourgeois class and the other the proletariat, the worker will be the slave and the bourgeois the master.

Abolition of Inheritance of Right. But what is it that separates property and capital from labor? What produces the economic and political class differences? What is it that destroys equality and perpetuates inequality, the privileges of a small number of people, and the slavery of the great majority? It is *the right of inheritance.*

So long as the right of inheritance remains in force, there never will be economic, social, and political equality in this world; and so long as inequality exists, oppression and exploitation also will exist.

Consequently, from the point of view of the integral emancipation of labor and of the workers, we should aim at *the abolition of the inheritance right.*

What we want to and what we should abolish is *the right to inherit*—a right based upon jurisprudence and constituting the very basis of *the juridical family* and *the State.*

Strictly speaking, inheritance is that which assures to the heirs, whether completely or only partly so, the possibility of living without working by levying a toll upon collective labor, whether it be land rent or interest on capital. From our point of view, capital as well as land, in a word, all the instruments and materials necessary for work, in ceasing to be transmissible by the law of inheritance, become forever the collective property of all the producers' associations.

Only at that price is it possible to attain equality and consequently the emancipation of labor and of the workers.

The Present Economic Regime

General Tendencies of Capitalism. Capitalist production and banking speculation, which in the long run swallows up this production, must ceaselessly expand at the expense of the smaller speculative and productive enterprises devoured by them; they must become the sole monopolies, universal and world-embracing.

Competition in the economic field destroys and swallows up the small and even medium-sized capitalist enterprises, factories, land estates, and commercial houses for the benefit of huge capital holdings, industrial enterprises, and mercantile firms.

Growing Concentration of Wealth. This wealth is exclusive and every day it tends to become increasingly so by concentrating in the hands of an ever smaller number of persons and by throwing the lower stratum of the middle class, the petty bourgeoisie, into the ranks of the proletariat, so that the development of this wealth is directly related to the growing poverty of the masses of workers. Hence it follows that the gulf separating the lucky and privileged minority from the millions of workers who maintain this minority through their own labor is ever widening and that the luckier the exploiters of labor become, the more wretched the great mass of workers are.

Proletarianization of the Peasantry. The small peasant property, weighed down by debts, mortgages, taxes, and all kinds of levies, melts away and slips out of the owner's hands, helping to round out the ever-growing possessions of the big owners; an inevitable economic law pushes him in turn into the ranks of the proletariat.

What is property, what is capital, in their present form? For the capitalist and the property owner they mean the power and the right, guaranteed by the State, to live without working. And since neither property nor capital produce anything when not fertilized by labor—that means the power and the right to live by exploiting the labor of

someone else, the right to exploit the labor of those who possess neither property nor capital and who thus are forced to sell their productive power to the lucky owners of both. . . .

Exploitation Is the Essence of Capitalism. . . . Let us even suppose, as it is being maintained by the bourgeois economists,—and with them by all the lawyers, all the worshipers of and believers in the juridical right, by all the priests of the civil and criminal code—let us suppose that this economic relationship between the exploiter and the exploited is altogether legitimate, that it is the inevitable consequence, the product, of an eternal, indestructible social law—and still it will always remain true that exploitation precludes brotherhood and equality for the exploited.

Workers Forced to Sell Their Labor. It goes without saying that it precludes economic equality. Suppose that I am your worker and you are my employer. If I offer my labor at the lowest price, if I consent to have you live off my labor, it is certainly not because of devotion or brotherly love for you. And no bourgeois economist would dare to say that it was, however idyllic and naive their reasoning becomes when they begin to speak about the reciprocal affections and mutual relations which *should* exist between employers and employees. No, I do it because my family and I would starve to death if I did not work for an employer. Thus I am *forced* to sell you my labor at the lowest possible price, and I am forced to do it by the threat of hunger.

Selling of Labor Power Is Not a Free Transaction. But—the economists tell us—the property owners, the capitalists, the employers, are *likewise* forced to seek out and purchase the labor of the proletariat. Yes, it is true, they are forced to do it, *but not in the same measure.* Had there been equality between those who offer their labor and those who purchase it, between the necessity of selling one's labor and the necessity of buying it, the slavery and misery of the proletariat would not exist. But then there would be neither capitalists, nor property owners, nor the proletariat, nor rich, nor poor: there would be only workers. It is precisely because such equality does not exist that we have and are bound to have exploiters.

Growth of the Proletariat Outstrips the Productive Capacity of Capitalism. This equality does not exist because in modern society where wealth is produced by the intervention of capital paying wages to labor, the growth of the population outstrips the growth of population, which results in the supply of labor necessarily surpassing the demand and leading to a relative sinking of the level of wages. Pro-

duction thus constituted, monopolized, exploited by bourgeois capital, is pushed on the one hand by the mutual competition of capitalists to concentrate evermore in the hands of an ever diminishing number of powerful capitalists, or in the hands of joint-stock companies which, owing to the merging of their capital, are more powerful than the biggest isolated capitalists. (And the small and medium-sized capitalists, not being able to produce at the same price as the big capitalists, naturally succumb in this deadly struggle.) On the other hand, all enterprises are forced by the same competition to sell their products at the lowest possible price.

It [capitalistic monopoly] can attain this two-fold result only by forcing out an ever-growing number of small or medium-sized capitalists, speculators, merchants, or industrialists, from the world of the exploiters into the world of the exploited proletariat, and at the same time squeezing out ever greater savings from the wages of the same proletariat.

Growing Competition for Jobs Forces Down Wage Levels. On the other hand, the mass of the proletariat, growing as a result of the general increase of the population—which, as we know, not even poverty can stop effectively—and through the increasing proletarianization of the petty-bourgeoisie, ex-owners, capitalists, merchants, and industrialists—growing, as I have already said, at a much more rapid rate than the productive capacities of an economy that is exploited by bourgeois capital—this growing mass of the proletariat is placed in a condition wherein the workers themselves are forced into disastrous competition against one another.

For since they possess no other means of existence but their own manual labor, they are driven, by the fear of seeing themselves replaced by others, to sell it at the lowest price. This tendency of the workers, or rather the necessity to which they are condemned by their own poverty, combined with the tendency of the employers to sell the products of *their* workers, and consequently to buy their labor, at *the lowest price*, constantly reproduces and consolidates the poverty of the proletariat. Since he finds himself in a state of poverty, the worker is compelled to sell his labor for almost nothing, and because he sells that product for almost nothing, he sinks into ever greater poverty.

Intensified Exploitation and Its Consequences. Yes, greater misery, indeed! For in this galley-slave labor the productive force of the workers, abused, ruthlessly exploited, excessively wasted and underfed, is rapidly used up. And once it is used up, what can be its value

on the market, of what worth is this *sole commodity* which he possesses and upon the daily sale of which he depends for a livelihood? Nothing! And then? Then nothing is left for the worker but to die.

What, in a given country, is the lowest possible wage? It is the price of that which is considered by the proletarians of that country as *absolutely necessary* to keep oneself alive. All the bourgeois economists are in agreement on this point. . . .

The Iron Law of Wages. The current price of primary necessities constitutes the prevailing constant level above which workers' wages *can never* rise for a very long time, but beneath which they drop very often, which constantly results in inanition, sickness, and death, until a sufficient number of workers *disappear* to equalize again the supply of and demand for labor.

There Is No Equality of Bargaining Power Between Employer and Worker. What the economists call equalized supply and demand does not constitute real equality between those who offer their labor for sale and those who purchase it. Suppose that I, a manufacturer, need a hundred workers and that exactly a hundred workers present themselves in the market—only one hundred, for if more came, the supply would exceed the demand, resulting in lowered wages. But since only one hundred appear, and since I, the manufacturer, need only that number—neither more nor less—it would seem at first that complete equality was established; that supply and demand being equal in number, they should likewise be equal in other respects.

Does it follow that the workers can demand from me a wage and conditions of work assuring them the means of a truly free, dignified, and human existence? Not at all! If I grant them those conditions and those wages, I, the capitalist, shall not gain thereby any more than they will. But then, why should I have to plague myself and become ruined by offering them the profits of my capital? If I want to work myself as the workers do, I will invest my capital somewhere else, wherever I can get the highest interest, and will offer my labor for sale to some capitalist just as my workers do.

If, profiting by the powerful initiative afforded me by my capital, I ask those hundred workers to fertilize that capital with their labor, it is not because of my sympathy for their sufferings, nor because of a spirit of justice, nor because of love for humanity. The capitalists are by no means philanthropists; they would be ruined if they practiced philanthropy. It is because I hope to draw from the labor of the workers sufficient profit to be able to live comfortably, even richly, while at the same time increasing my capital—and all that without having to work myself. Of course I shall work too, but my work will

be of an altogether different kind, and I will be remunerated at a much higher rate than the workers. It will not be the work of production but that of administration and exploitation.

Monopolization of Administrative Work. But isn't administrative work also productive work? No doubt it is, for lacking a good and intelligent administration, manual labor will not produce anything or it will produce very little and very badly. But from the point of view of justice and the needs of production itself, it is not at all necessary that this work should be monopolized in my hands, nor, above all, that I should be compensated at a rate so much higher than manual labor. The co-operative associations already have proven that workers are quite capable of administering industrial enterprises, that it can be done by workers elected from their midst and who receive the same wage. Therefore if I concentrate in my hands the administrative power, it is not because the interests of production demand it, but in order to serve my own ends, the ends of exploitation. As the absolute boss of my establishment I get for my labor ten or twenty times more, and if I am a big industrialist I may get a hundred times more than my workers get for theirs, and this is true despite the fact that my labor is incomparably less painful than theirs.

The Mechanics of the Fictitious Free Labor Contract. But since supply and demand are equal, why do the workers accept the conditions laid down by the employer? If the capitalist stands in just as great a need of employing the workers as the one hundred workers do of being employed by him, does it not follow that both sides are in an equal position? Do not both meet at the market as two equal merchants—from the juridical point of view at least—one bringing the commodity called a *daily wage,* to be exchanged for the *daily labor* of the worker on the basis of so many hours per day; and the other bringing *his own labor* as his commodity to be exchanged for the wage offered by the capitalist? Since, in our supposition, the demand is for a hundred workers and the supply is likewise that of a hundred persons, it may seem that both sides are in an equal position.

Of course nothing of the kind is true. What is it that brings the capitalist to the market? It is the urge to get rich, to increase his capital, to gratify his ambitions and social vanities, to be able to indulge in all conceivable pleasures. And what brings a worker to the market? Hunger, the necessity of eating today and tomorrow. Thus, while being equal from the point of view of juridical fiction, the capitalist and the worker are anything but equal from the point of view of the economic situation, which is the real situation.

The capitalist is not threatened with hunger when he comes to

the market; he knows very well that if he does not find today the workers for whom he is looking, he will still have enough to eat for quite a long time, owing to the capital of which he is the happy possessor. If the workers whom he meets in the market present demands which seem excessive to him, because, far from enabling him to increase his wealth and improve even more his economic position, those proposals and conditions might, I do not say equalize, but bring the economic position of the workers somewhat close to his own—what does he do in that case? He turns down those proposals and waits.

After all, he was not impelled by an urgent necessity, but by a desire to improve a position, which, compared to that of the workers, is already quite comfortable, and so he can wait. And he will wait, for his business experience has taught him that the resistance of workers who, possessing neither capital, nor comfort, nor any savings to speak of, are pressed by a relentless necessity, by hunger, that this resistance cannot last very long, and that finally he will be able to find the hundred workers for whom he is looking—for *they will be forced to accept the conditions which he finds it profitable to impose upon them.* If they refuse, others will come who will be only too happy to accept such conditions. That is how things are done daily with the knowledge and in the full view of everyone. . . .

A Master-Slave Contract. . . . The capitalist then comes to the market in the capacity, if not of an absolutely free agent, at least that of an infinitely freer agent than the worker. What happens in the market is a meeting between a drive for lucre and starvation, between master and slave. Juridically they are both equal; but economically the worker is the serf of the capitalist, *even before the market transaction has been concluded* whereby the worker sells his person and his liberty for a given time. The worker is in the position of a serf because this terrible threat of starvation which daily hangs over his head and over his family, will force him to accept any conditions imposed by the gainful calculations of the capitalist, the industrialist, the employer.

Juridical Right Versus Economic Reality. And once the contract has been negotiated, the serfdom of the worker is doubly increased. . . . M. Karl Marx, the illustrious leader of German Communism, justly observed in his magnificent work *Das Kapital* that if the contract *freely* entered into by the vendors of money—in the form of wages—and the vendors of their own labor—that is, between the employer and the workers—were concluded not for a definite and limited term only, but for one's whole life, it would constitute real slav-

ery. Concluded for a term only and reserving to the worker the right to quit his employer, this contract constitutes a sort of *voluntary* and *transitory* serfdom.

Yes, transitory and voluntary from the juridical point of view, but nowise from the point of view of economic possibility. The worker always has the *right* to leave his employer, but has he the means to do so? And if he does quit him, is it in order to lead a free existence, in which he will have no master but himself? No, he does it in order to sell himself to another employer. He is driven to it by the same hunger which forced him to sell himself to the first employer.

Thus the worker's liberty, so much exalted by the economists, jurists, and bourgeois republicans, is only a theoretical freedom, lacking any means for its possible realization, and consequently it is only a fictitious liberty, an utter falsehood. The truth is that the whole life of the worker is simply a continuous and dismaying succession of terms of serfdom—voluntary from the juridical point of view but compulsory in the economic sense—broken up by momentarily brief interludes of freedom accompanied by starvation; in other words, it is real slavery.

Labor Contracts Are Observed by the Employer Only in the Breach. This slavery manifests itself daily in all kinds of ways. Apart from the vexations and oppressive conditions of the contract which turn the worker into a subordinate, a passive and obedient servant, and the employer into a nearly absolute master—apart from all that it is well known that there is hardly an industrial enterprise wherein the owner, impelled on one hand by the two-fold instinct of an unappeasable lust for profits and absolute power, and on the other hand, profiting by the economic dependence of the worker, does not set aside the terms stipulated in the contract and wring some additional concessions in his own favor. Now he will demand more hours of work, that is, over and above those stipulated in the contract; now he will cut down the wages on some pretext; now he will impose arbitrary fines, or he will treat the workers harshly, rudely, and insolently.

But, one may say, in that case the worker can quit. Easier said than done. At times the worker receives part of his wages in advance, or his wife or children may be sick, or perhaps his work is poorly paid throughout this particular industry. Other employers may be paying even less than his own employer, and after quitting this job he may not even be able to find another one. And to remain without a job spells death for him and his family. In addition, there is an understanding among all the employers, and all of them resemble one another. All are almost equally irritating, unjust, and harsh.

Is this a calumny? No, it is in the nature of things, and in the logical necessity of the relationship existing between the employers and their workers.

Class Struggle in Society Inevitable

Citizens and slaves—such was the antagonism existing in the ancient world as well as in the slave States of the New World. Citizens and slaves—that is, forced laborers, slaves not by right but in fact—such is the antagonism of the modern world. And just as the ancient States perished from slavery, so will the modern States perish at the hands of the proletariat.

Class Differences Are Real Despite the Lack of Clear Demarcations. In vain would one try to console oneself that this antagonism is fictitious rather than real, or that it is impossible to lay down a clear line of demarcation between the possessing and dispossessed classes, since both merge into each other through many intermediary and imperceptible shadings. Nor for that matter do such lines of demarcation exist in the natural world; for instance, in the ascending series of beings it is impossible to show exactly the point where the plant kingdom ends and the animal kingdom begins, where bestiality ceases and humanity begins. Nevertheless, there is a very real difference between a plant and an animal, and between an animal and man.

It is the same in human society: notwithstanding the intermediary links which render imperceptible the transition from one political and social situation to another, the differences between classes is very marked, and everyone can distinguish the blue-blooded aristocracy from the financial aristocracy, the upper bourgeoisie from the petty-bourgeoisie, and the latter from the factory and city proletariat—just as we can distinguish the big land-owner, the *rentier,* from the peasant who works his own land; and the farmer from the ordinary land proletarian (the hired farmhand.)

Basic Class Difference. All these different political and social groupings can now be reduced to two principal categories, diametrically opposed and naturally hostile to each other: the *privileged classes,* comprising all those who are privileged with respect to possession of land, capital, or even only of bourgeois education, and the *working classes,* disinherited with respect to land as well as capital, and deprived of all education and instruction.

Class Struggle in Existing Society Is Irreconcilable. The antagonism existing between the bourgeois world and that of the workers

takes on an ever more pronounced character. Every serious-minded man, whose feelings and imagination are not distorted by the influence, often unconscious, of biased sophisms, must realize that no reconciliation between these two worlds is possible. The workers want equality and the bourgeoisie wants to maintain inequality. Obviously one destroys the other. Therefore the great majority of bourgeois capitalists and property-owners who have the courage frankly to avow their wishes manifest with the same candor the horror which the present labor movement inspires in them. They are resolute and sincere enemies; we know them and it is well that we do.

It is clear now that there can be no reconciliation between the fierce, starving proletariat, moved by social-revolutionary passions and persistently aiming to create another world upon the foundation of the principles of truth, justice, freedom, equality, and human brotherhood (principles tolerated in respectable society only as an innocent subject for rhetorical exercises) and the enlightened and educated world of privileged classes defending with desperate vigor the political, juridical, metaphysical, theological, and military regime as the last fortress guarding the precious privilege of economic exploitation. Between these two worlds, I say, between the plain working people and educated society (combining in itself, as we know, all the excellences, beauty, and virtues) no reconciliation is possible.

Class Struggle in Terms of Progress and Reaction. Only two real forces have been left by now: the party of the past, of reaction, comprising all the possessing and privileged classes and now taking shelter, often outspokenly, under the banner of military dictatorship or the authority of the State; and the party of the future, the party of integral human emancipation, the party of revolutionary Socialism, of the proletariat.

One must be a sophist or utterly blind to deny the existence of the abyss which today separates these two classes. As in the ancient world, our modern civilization, comprising a comparatively limited minority of privileged citizens, has for its basis the forced labor (forced by hunger) of the vast majority of the population, inevitably doomed to ignorance and brutality. . . .

Free Trade Is No Solution. It is in vain that one may say with the economists that the betterment of the economic situation of the working classes depends upon the general progress of industry and commerce in every country and their complete emancipation from the tutelage and protection of the State. Freedom of industry and commerce is of course a great thing, and is one of the basic foundations for the future international union of all the peoples of the world. Be-

ing friends of liberty at any price, and of all liberties, we should be equally the friends of those liberties as well. But, on the other hand, we must recognize that so long as the present States exist and so long as labor continues to be the serf of property and capital, this liberty, by enriching a very small section of the bourgeoisie at the expense of the vast majority of the population, will produce one good result: It will enervate and demoralize more completely the small number of privileged people, will increase the poverty, the resentment, and the just indignation of the working masses, and thereby will bring nearer the hour of destruction of the States.

Free-Trade Capitalism Is Fertile Soil for the Growth of Pauperism. England, Belgium, France, and Germany are certainly those countries in Europe where commerce and industry enjoy comparatively the greatest freedom, and where they have attained the highest degree of development. And likewise those are precisely the countries where pauperism is felt in the most cruel manner, and where the gulf between the capitalists and property-owners on one hand and the working classes on the other appears to have widened to an extent unknown in other countries.

The Labor of the Privileged Classes. Thus we are compelled to recognize as a general rule that in the modern world, if not to the same degree as in the ancient world, the civilization of a small number is still based upon the forced labor and comparative barbarism of the great majority. Yet it would be unjust to say that this privileged class is altogether alien to work; on the contrary, in our day many of its members work hard. The number of absolutely unoccupied persons is perceptibly decreasing, and work is beginning to elicit respect in those circles; for the most fortunate members of society are beginning to understand that in order to remain at the high level of the present civilization, in order at least to be able to profit by their privileges and to safeguard them, one has to work a great deal.

But there is a difference between the work of the well-to-do classes and that of the workers: the first, being paid for at a rate proportionately much higher than the second, gives leisure to the privileged people, that supreme condition of all human development, intellectual as well as moral—a condition never yet enjoyed by the laboring classes. And then the work of the privileged people is almost exclusively of the nervous kind, that is, of imagination, memory, and thought—whereas the work of the millions of proletarians is of the *muscular* kind; and often, as in the case of factory work, it does not exercise man's whole system but develops only one part of him to the detriment of all the other parts, and it is generally done under

conditions which are harmful to bodily health and which militate against his harmonious development.

In this respect, the worker on the land is much more fortunate: free from the vitiating effect of the stuffy and frequently poisoned air of factories and workshops, and free from the deforming effect of an abnormal development of some of his powers at the expense of others, his nature remains more vigorous and complete—but in return, his intelligence is nearly always more stationary, sluggish, and much less developed than that of the factory and city proletariat.

Respective Rewards of the Two Kinds of Labor. Altogether artisans, factory workers, and farm-laborers form one and the same category, that of *muscular work*, and are opposed to the privileged representatives of *nervous work*. What is the consequence of this quite real division which constitutes the very basis of the present situation, political as well as social?

To the privileged representatives of nervous work, who, incidentally, are called upon, in the present organization of society, to carry on this type of work, not because they are more intelligent but only because they were born into a privileged class—to them go all the benefits, but also all the corruptions of existing civilization. To them go wealth, luxury, comfort, well-being, family joys, exclusive enjoyment of political liberty with the power to exploit the work of millions of workers and to govern them at will and in their own interest —all the creations, all the refinements of imagination and thought . . . and with this power to become complete men—all the poisons of a humanity perverted by privilege.

And what is left for the representatives of *muscular work*, for the countless millions of proletarians or even small land-owners? Inescapable poverty, lack of even the joys of family life (for the family soon becomes a burden to the poor man), ignorance, barbarism, and we might almost say, forced bestiality, with the "consolation" that they serve as a pedestal for civilization, for liberty, and for the corruption of a small minority. But in return, they have preserved freshness of mind and heart. Morally invigorated by work, even though it has been forced upon them, they have retained a sense of justice of an altogether higher kind than the justice of learned jurists and of the law codes. Living a life of misery, they have a warm feeling of compassion for all the unfortunate; they have preserved sound sense uncorrupted by the sophisms of a doctrinaire science or by the falsehoods of politics—and since they have not abused life, nor even made use of life, they have retained their faith in it.

The Change in the Situation Wrought by the Great French Revolu-

tion. But, we are told, this contrast, this gulf between the privileged minority and the vast number of disinherited has always existed and continues to exist. Then what kind of change did take place? What changed was that in the past this gulf had been enveloped in thick religious mist so that the masses of people could not descry it; but that after the Great Revolution had begun to dispel this mist, the masses became aware of the gulf and began to ask the reason for its existence. The significance of that change is immense.

From the time when the Revolution brought down to the masses its Gospel—not the mystic but the rational, not the heavenly but the earthly, not the divine but the human Gospel, the Gospel of the Rights of Man—ever since it proclaimed that all men are equal, that all men are entitled to liberty and equality, the masses of all European countries, of all the civilized world, awakening gradually from the sleep which had kept them in bondage ever since Christianity drugged them with its opium, began to ask themselves whether they too had the right to equality, freedom, and humanity.

Socialism Is the Logical Consequence of the Dynamics of the French Revolution. As soon as this question was posed, the people, guided by their admirable sound sense as well as by their instincts, realized that the first condition of their real emancipation, or of their *humanization,* was a radical change in their economic condition. The question of daily bread was to them justly the first question, for, as Aristotle long ago had noted, man, in order to think, in order to feel himself free, in order to become a man, has to be liberated from the preoccupations of the material life. For that matter, the bourgeois, who are so vociferous in their attacks against the materialism of the people and who preach to the latter the abstinences of idealism, know it very well, for they themselves preach it only by word and not by example.

The second question for the people was leisure after work—an indispensable condition for humanity. But bread and leisure never can be obtained apart from a radical transformation of the present organization of society, and that explains why the Revolution, driven on by the implications of its own principle, gave birth to Socialism.

Peter Kropotkin

1842–1921

There is enormous human appeal in the story of a Russian Prince who in his thirtieth year adopts the doctrine of anarchism, suffers imprisonment first in Siberia and later in France, and, in the course of a long life, never ceases to believe in the essential goodness of man and the essential evil of human governments. Prince Kropotkin in his own life exemplified the noblest emotions of the philosophical anarchist: the enormous faith in human freedom, the complete confidence in human potentialities, and the utter certainty that man can live without restraint.

In truth, emotion rather than thought has a tendency to be prominent in anarchist writing. As an idea, anarchism appears to borrow mainly from classical liberalism and Marxist socialism. From the first it claimed kinship on the functions of government. Anarchists have frequently quoted Adam Smith's conclusion that ". . . civil government . . . is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all." Kropotkin, for his part, is convinced that there are three categories of laws, designed to protect individual security, to protect the government, or to protect private property. Actually, all three categories pertain to private property, for the individual and the government generally need protection only when property is menaced.

How will the anarchist society function after government is abolished? Like the Marxists, Kropotkin is persuaded that the abolition of private property will eliminate most social problems. As for those that remain, nature has endowed man with ". . . a nucleus of social habits inherited from the past." These habits will make it possible for a good society to function as a federation of free associations,

joined together "for all the purposes which require federation: trade federations for productions of all kinds . . . federations of communes . . . and federations of communes with trade organizations." In Mutual Aid, *Kropotkin examines a large number of European instances of spontaneous voluntary association.*

This selection comes from Memoirs of a Revolutionist *(Boston: Houghton Mifflin, 1930), pp. 398-403.*

A New Society

Our main activity, however, was in working out the practical and theoretic aspects of anarchist socialism, and in this direction the federation has undoubtedly accomplished something that will last.

We saw that a new form of society is germinating in the civilized nations, and must take the place of the old one: a society of equals, who will not be compelled to sell their hands and brains to those who choose to employ them in a haphazard way, but who will be able to apply their knowledge and capacities to production, in an organism so constructed as to combine all the efforts for procuring the greatest sum possible of well-being for all, while full, free scope will be left for every individual initiative. This society will be composed of a multitude of associations, federated for all the purposes which require federation: trade federations for production of all sorts—agricultural, industrial, intellectual, artistic; communes for consumption, making provision for dwellings, gas works, supplies of food, sanitary arrangements, etc.; federations of communes among themselves, and federations of communes with trade organizations; and finally wider groups covering all the country, or several countries, composed of men who collaborate for the satisfaction of such economic, intellectual, artistic, and moral needs as are not limited to a given territory. All these will combine directly, by means of free agreements between them, just as the railway companies or the postal departments of different countries coöperate now, without having a central railway or postal government—even though the former are actuated by merely egotistic aims, and the latter belong to different and often hostile states; or as the meteorologists, the Alpine clubs, the lifeboat stations in Great Britain, the cyclists, the teachers, and so on, combine for all sorts of work in common, for intellectual pursuits, or simply for pleasure. There will be full freedom for the development of new forms of production, invention, and organization; individual initiative will be encouraged, and the tendency toward uniformity and cen-

tralization will be discouraged. Moreover, this society will not be crystallized into certain unchangeable forms, but will continually modify its aspect, because it will be a living, evolving organism; no need of government will be felt, because free agreement and federation take its place in all those functions which governments consider as theirs at the present time, and because, the causes of conflict being reduced in number, those conflicts which may still arise can be submitted to arbitration.

None of us minimized the importance and magnitude of the change which we looked for. We understood that the current opinions upon the necessity of private ownership in land, factories, mines, dwelling-houses, and so on, as the means of securing industrial progress, and of the wage-system as the means of compelling men to work, would not soon give way to higher conceptions of socialized ownership and production. We knew that a tedious propaganda and a long succession of struggles, of individual and collective revolts against the now prevailing forms of property-holding, of individual self-sacrifice, of partial attempts at reconstruction and partial revolutions, would have to be lived through, before the current ideas upon private ownership would be modified. And we understood also that the prevalent ideas concerning the necessity of authority—in which all of us have been bred—would not and could not be abandoned by civilized mankind all at once. Long years of propaganda and a long succession of partial acts of revolt against authority, as well as a complete revision of the teachings now derived from history, would be required before men would perceive that they had been mistaken in attributing to their rulers and their laws what was derived in reality from their own sociable feelings and habits. We knew all that. But we also knew that in preaching reform in both these directions, we should be working with the tide of human progress.

When I made a closer acquaintance with the working population and their sympathizers from the better educated classes, I soon realized that they valued their personal freedom even more than they valued their personal well-being. Fifty years ago, the workers were ready to sell their personal liberty to all sorts of rulers, and even to a Caesar, in exchange for a promise of material well-being; but now, this was no longer the case. I saw that the blind faith in elected rulers, even if they were taken from amongst the best leaders of the labor movement, was dying away amongst the Latin workers. "We must know first what we want, and then we can do it best ourselves," was an idea which I found widely spread among them—far more widely than is generally believed. The sentence which was put in the

statutes of the International Association, "The emancipation of the workers must be accomplished by the workers themselves," had met with general sympathy, and had taken root in minds. The sad experience of the Paris Commune only confirmed it.

When the insurrection broke out, a considerable number of men belonging to the middle classes themselves were prepared to make, or at least to accept, a new start in the social direction. "When my brother and myself, coming from our little room, went out into the streets," Elisée Reclus said to me once, "we were asked on all sides by people belonging to the wealthier classes: 'Tell us what is to be done? We are ready to try a new start.' But *we* were not yet prepared to make the suggestions."

Never before had a government been as fairly representative of all the advanced parties as was the Council of the Commune, elected on the 25th of March, 1871. All shades of revolutionary opinion—Blanquists, Jacobinists, Internationalists—were represented in it in a true proportion. And yet, the workers themselves having no distinct ideas of social reform to impress upon their representatives, the Commune government did nothing in that direction. The very fact of having been isolated from the masses and shut up in the Hôtel de Ville paralyzed them. For the success of socialism, the ideas of no-government, of self-reliance, of free initiative of the individual—of anarchism, in a word—had thus to be preached side by side with those of socialized ownership and production.

We certainly foresaw that if full freedom were left to the individual for the expression of his ideas and for action, we should have to face a certain amount of extravagant exaggeration of our principles. I had seen it in the nihilist movement in Russia. But we trusted—and experience has proved that we were right—that social life itself, supported by a frank, open-minded criticism of opinions and actions, would be the most effective means for threshing out opinions and for divesting them of the unavoidable exaggerations. We acted, in fact, in accordance with the old saying that freedom remains still the wisest cure for freedom's temporary inconveniences. There is, in mankind, a nucleus of social habits—an inheritance from the past, not yet duly appreciated—which is *not* maintained by coercion and is superior to coercion. Upon it all the progress of mankind is based, and so long as mankind does not begin to deteriorate physically and mentally, it will not be destroyed by any amount of criticism or of occasional revolt against it. These were the opinions in which I grew confirmed more and more in proportion as my experience of men and things increased.

We understood at the same time that such a change cannot be produced by the conjectures of one man of genius, that it will not be one man's discovery, but that it must result from the constructive work of the masses, just as the forms of judicial procedure which were elaborated in the early mediaeval period, the village community, the guild, the mediaeval city, and the foundations of international law were worked out by the people.

Many of our predecessors had undertaken to picture ideal commonwealths, basing them sometimes upon the principle of authority, and, on some rare occasions, upon the principle of freedom. Robert Owen and Fourier had given the world their ideals of a free, organically developing society, in opposition to the pyramidal ideals which had been copied from the Roman Empire or from the Roman Church. Proudhon had continued their work, and Bakunin, applying his wide and clear understanding of the philosophy of history to the criticism of present institutions, "built up while he was demolishing." But all that was preparatory work only.

The International Workingmen's Association inaugurated a new method of solving the problems of practical sociology by appealing to the workers themselves. The educated men who had joined the association undertook only to enlighten the workers as to what was going on in different countries of the world, to analyze the obtained results, and, later on, to aid them in formulating their conclusions. We did not pretend to evolve an ideal commonwealth out of our theoretical views as to what a society *ought to be,* but we invited the workers to investigate the causes of the present evils, and in their discussions and congresses to consider the practical aspects of a better social organization than the one we live in. A question raised at an international congress was recommended as a subject of study to all labor unions. In the course of the year it was discussed all over Europe, in the small meetings of the sections, with a full knowledge of the local needs of each trade and each locality; then the work of the sections was brought before the next congress of each federation, and finally it was submitted in a more elaborate form to the next international congress. The structure of the society which we longed for was thus worked out, in theory and practice, from beneath, and the Jura Federation took a large part in the elaboration of the anarchist ideal.

For myself, placed as I was in such favorable conditions, I gradually came to realize that anarchism represents more than a mere mode of action and a mere conception of a free society; that it is part of a philosophy, natural and social, which must be developed in a quite

different way from the metaphysical or dialectic methods which have been employed in sciences dealing with man. I saw that it must be treated by the same methods as natural sciences; not, however, on the slippery ground of mere analogies such as Herbert Spencer accepts, but on the solid basis of induction applied to human institutions. And I did my best to accomplish what I could in that direction.

V. I. Lenin

1870–1923

In the Marxist canon, Lenin is the pre-eminent man of action. Joseph Schumpeter went so far as to say that Lenin contributed nothing of significance to Marxist doctrine. In the strictly analytical sense, Schumpeter's judgment may be valid, for much of Lenin's voluminous writings consisted of exegesis rather than extension of Marx and Engels. Lenin's contributions are most conspicuous in his analysis of imperialism as the "highest stage of capitalism" (though his debt to Hobson is here very great), in his expansion of Marx's sketch (contained in Marx's Critique of the Gotha Programme) *of the transition from capitalist to socialist organization, and in his analysis of revolutionary situations.*

The extract from State and Revolution *that follows includes Lenin's famous description of the state as an instrument of class domination, his postulation of the "revolutionary dictatorship of the proletariat" as a necessity of the immediate postrevolutionary situation, and his justification for the expectation that the state will in due course "wither away." It is fair to say that in Marx's* Critique of the Gotha Programme *and in these passages from Lenin's* State and Revolution *the utopian strain in Marxism, repressed on most occasions by Marx and his great followers, releases itself. Lenin's expectations of human behavior under communism are neither more nor less realistic than Robert Owen's.*

As an analyst of revolutionary situations, Lenin was entirely realistic. His most important amendment of Marxism was implicit in his conclusion that the working class required nonworking-class, intellectual leadership before its mood could become revolutionary. Without this leadership, the labor movement itself will deteriorate into a bourgeois institution. Hence the absolute necessity of a disciplined, ideo-

logically sophisticated party of revolutionaries. The now traditional Communist suspicion of ordinary trade unionism has solid Leninist foundations. Lenin's formulation of the position is worth quotation:

> *Since the development of an independent ideology among the workers, as a result of their own struggle, is out of the question, there is thus possible either a bourgeois ideology or a Socialist ideology, and the question is Which of the two shall it be? The blind unfolding of the labor movement can lead only to the permeation of that movement with a bourgeois ideology, because the unconscious growth of the labor movement takes the form of trade unionism, and trade unionism signifies the mental enslavement of the workers to the bourgeoisie. Therefore, our task as Social Democrats is to oppose this blind process, to divert the labor movement from the unconscious tendency of trade unionism to march under the protective wing of the bourgeoisie, and to bring it under the influence of Social Democracy instead.*

When Lenin, translating precept into action, led Russia into socialist revolution, he triumphed in a land that had apparently far from completed the capitalist development, the proletarian organization, and the industrial expansion that Marxist literature suggested as the preconditions of socialism. Many of Lenin's own followers had serious doubts about the practicability, in Marxist terms, of a socialist revolution, and some of them were inclined to compromise on an ordinary bourgeois revolution first. Lenin's answer contained no doubts of his own:

> *In "ordinary" comparatively peaceful times such a "hope" would have sufficed for many a long decade.*
>
> *But . . . the democratic republic is the bourgeois democratic republic, which has already become antiquated from the point of view of the problems which imperialism has placed on the agenda of history. . . . There is no other alternative: either the triumph of the Soviet regime in every advanced country of the world, or the triumph of the most reactionary, the most savage imperialism, which is throttling all the small and weak nationalities and reinstating reaction all over the world—Anglo-American imperialism, which has perfectly mastered the art of using the form of a democratic republic.*
>
> *One or the other.*
>
> *There is no middle course.*

This selection from State and Revolution *is taken from Emile Burns,* A Handbook of Marxism (*New York, 1935*), *pp. 742-59. Reprinted by permission of International Publishers.*

Transition from Capitalism to Communism

> Between capitalist and Communist society—Marx continues—lies the period of the revolutionary transformation of the former into the latter. To this also corresponds a political transition period, in which the State can be no other than *the revolutionary dictatorship of the proletariat.*

This conclusion Marx bases on an analysis of the role played by the proletariat in modern capitalist society, on the data concerning the development of this society, and on the irreconcilability of the opposing interests of the proletariat and the bourgeoisie.

Earlier the question was put thus: to attain its emancipation, the proletariat must overthrow the bourgeoisie, conquer political power and establish its own revolutionary dictatorship.

Now the question is put somewhat differently: the transition from capitalist society, developing towards Communism, towards a Communist society, is impossible without a "political transition period," and the State in this period can only be the revolutionary dictatorship of the proletariat.

What, then, is the relation of this dictatorship to democracy?

We have seen that *The Communist Manifesto* simply places side by side the two ideas: the "transformation of the proletariat into the ruling class" and the "establishment of democracy." On the basis of all that has been said above, one can define more exactly how democracy changes in the transition from capitalism to Communism.

In capitalist society, under the conditions most favourable to its development, we have more or less complete democracy in the democratic republic. But this democracy is always bound by the narrow framework of capitalist exploitation, and consequently, always remains, in reality, a democracy for the minority, only for the possessing classes, only for the rich. Freedom in capitalist society always remains just about the same as it was in the ancient Greek republics: freedom for the slave-owners. The modern wage-slaves, owing to the conditions of capitalist exploitation, are so much crushed by want and poverty that "democracy is nothing to them," "politics is nothing to them"; that, in the ordinary peaceful course of events, the majority of the population is debarred from participating in social and political life.

The correctness of this statement is perhaps most clearly proved by Germany, just because in this State constitutional legality lasted

and remained stable for a remarkably long time—for nearly half a century (1871-1914)—and because Social-Democracy in Germany during that time was able to achieve far more than in other countries in "utilising legality," and was able to organise into a political party a larger proportion of the working class than anywhere else in the world.

What, then, is this largest proportion of politically conscious and active wage-slaves that has so far been observed in capitalist society? One million members of the Social-Democratic Party—out of fifteen million wage-workers! Three million organised in trade unions —out of fifteen million!

Democracy for an insignificant minority, democracy for the rich—that is the democracy of capitalist society. If we look more closely into the mechanism of capitalist democracy, everywhere, both in the "petty"—so-called petty—details of the suffrage (residential qualification, exclusion of women, etc.), and in the technique of the representative institutions, in the actual obstacles to the right of assembly (public buildings are not for "beggars"!), in the purely capitalist organisation of the daily Press, etc., etc.—on all sides we see restriction after restriction upon democracy. These restrictions, exceptions, exclusions, obstacles for the poor, seem slight, especially in the eyes of one who has himself never known want and has never been in close contact with the oppressed classes in their mass life (and nine-tenths, if not ninety-nine hundredths, of the bourgeois publicists and politicians are of this class), but in their sum total these restrictions exclude and squeeze out the poor from politics and from an active share in democracy.

Marx splendidly grasped this *essence* of capitalist democracy, when, in analysing the experience of the Commune, he said that the oppressed were allowed, once every few years, to decide which particular representatives of the oppressing class should be in parliament to represent and repress them!

But from this capitalist democracy—inevitably narrow, subtly rejected the poor, and therefore hypocritical and false to the core—progress does not march onward, simply smoothly, and directly, to "greater and greater democracy," as the liberal professors and petty-bourgeois opportunists would have us believe. No, progress marches onward, i.e., toward Communism, through the dictatorship of the proletariat; it cannot do otherwise, for there is no one else and no other way to *break the resistance* of the capitalist exploiters.

But the dictatorship of the proletariat—i.e., the organisation of the vanguard of the oppressed as the ruling class for the purpose of crushing the oppressors—cannot produce merely an expansion of democ-

racy. *Together* with an immense expansion of democracy which *for the first time* becomes democracy for the poor, democracy for the people, and not democracy for the rich folk, the dictatorship of the proletariat produces a series of restrictions of liberty in the case of the oppressors, the exploiters, the capitalists. We must crush them in order to free humanity from wage-slavery; their resistance must be broken by force; it is clear that where there is suppression there is also violence, there is no liberty, no democracy.

Engels expressed this splendidly in his letter to Bebel when he said, as the reader will remember, that "as long as the proletariat still *needs* the State, it needs it not in the interests of freedom, but for the purpose of crushing its antagonists; and as soon as it becomes possible to speak of freedom, then the State, as such, ceases to exist."

Democracy for the vast majority of the people, and suppression by force, i.e., exclusion from democracy, of the exploiters and oppressors of the people—this is the modification of democracy during the *transition* from capitalism to Communism.

Only in Communist society, when the resistance of the capitalists has been completely broken, when the capitalists have disappeared, when there are no classes (i.e., there is no difference between the members of society in their relation to the social means of production), *only then* "the State ceases to exist," and "it becomes possible *to speak of freedom.*" Only then a really full democracy, a democracy without any exceptions, will be possible and will be realised. And only then will democracy itself begin to *wither away* due to the simple fact that, freed from capitalist slavery, from the untold horrors, savagery, absurdities and infamies of capitalist exploitation, people will gradually *become accustomed* to the observation of the elementary rules of social life that have been known for centuries and repeated for thousands of years in all school books; they will become accustomed to observing them without force, without compulsion, without subordination, without the *special apparatus* for compulsion which is called the State.

The expression "the State *withers away,*" is very well chosen, for it indicates both the gradual and the elemental nature of the process. Only habit can, and undoubtedly will, have such an effect; for we see around us millions of times how readily people get accustomed to observe the necessary rules of life in common, if there is no exploitation, if there is nothing that causes indignation, that calls forth protest and revolt and has to be *suppressed.*

Thus, in capitalist society, we have a democracy that is curtailed, poor, false; a democracy only for the rich, for the minority. The

dictatorship of the proletariat, the period of transition to Communism, will, for the first time, produce democracy for the people, for the majority, side by side with the necessary suppression of the minority—the exploiters. Communism alone is capable of giving a really complete democracy, and the more complete it is the more quickly will it become unnecessary and wither away of itself.

In other words: under capitalism we have a State in the proper sense of the word, that is, special machinery for the suppression of one class by another, and of the majority by the minority at that. Naturally, for the successful discharge of such a task as the systematic suppression by the exploiting minority of the exploited majority, the greatest ferocity and savagery of suppression are required, seas of blood are required, through which mankind is marching in slavery, serfdom, and wage-labour.

Again, during the *transition* from capitalism to Communism, suppression is *still* necessary; but it is the suppression of the minority of exploiters by the majority of exploited. A special apparatus, special machinery for suppression, the "State," is *still* necessary, but this is now a transitional State, no longer a State in the usual sense, for the suppression of the minority of exploiters, by the majority of the wage slaves of *yesterday*, is a matter comparatively so easy, simple and natural that it will cost far less bloodshed than the suppression of the risings of slaves, serfs or wage labourers, and will cost mankind far less. This is compatible with the population, that the need for *special machinery* of suppression will begin to disappear. The exploiters are, naturally, unable to suppress the people without a most complex machinery for performing this task; but *the people* can suppress the exploiters even with very simple "machinery," almost without any "machinery," without any special apparatus, by the simple *organisation of the armed masses* (such as the Soviets of Workers' and Soldiers' Deputies, we may remark, anticipating a little).

Finally, only Communism renders the State absolutely unnecessary, for there is *no one* to be suppressed—"no one" in the sense of a *class*, in the sense of a systematic struggle with a definite section of the population. We are not Utopians, and we do not in the least deny the possibility and inevitability of excesses on the part of *individual persons*, nor the need to suppress *such* excesses. But, in the first place, no special machinery, no special apparatus of repression is needed for this; this will be done by the armed people itself, as simply and as readily as any crowd of civilised people, even in modern society, parts a pair of combatants or does not allow a woman to be outraged. And, secondly, we know that the fundamental social

cause of excesses which consists in violating the rules of social life is the exploitation of the masses, their want and their poverty. With the removal of this chief cause, excesses will inevitably begin to "wither away." We do not know how quickly and in what succession, but we know that they will wither away. With their withering away, the State will also *wither away.*

Without going into Utopias, Marx defined more fully what can *now* be defined regarding this future, namely, the difference between the lower and higher phases (degrees, stages) of Communist society.

First Phase of Communist Society

In the *Critique of the Gotha Programme,* Marx goes into some detail to disprove the Lassallean idea of the workers' receiving under Socialism the "undiminished" or "full product of their labour." Marx shows that out of the whole of the social labour of society, it is necessary to deduct a reserve fund, a fund for the expansion of production, for the replacement of worn-out machinery and so on; then also, out of the means of consumption must be deducted a fund for the expenses of management, for schools, hospitals, homes for the aged, and so on.

Instead of the hazy, obscure, general phrase of Lassalle's—"the full product of his labour for the worker"—Marx gives a sober estimate of exactly how a Socialist society will have to manage its affairs, Marx undertakes a *concrete* analysis of the conditions of life of a society in which there is no capitalism, and says:

> What we are dealing with here [analysing the programme of the party] is not a Communist society which has *developed* on its own foundations, but, on the contrary, one which is just *emerging* from capitalist society, and which therefore in all respects—economic, moral and intellectual—still bears the birthmarks of the old society from whose womb it sprung.

And it is this Communist society—a society which has just come into the world out of the womb of capitalism, and which, in all respects, bears the stamp of the old society—that Marx terms the "first," or lower, phase of Communist society.

The means of production are no longer the private property of individuals. The means of production belong to the whole of society. Every member of society, performing a certain part of socially-necessary work, receives a certificate from society to the effect that he has done such and such a quantity of work. According to this certificate,

he receives from the public warehouses, where articles of consumption are stored, a corresponding quantity of products. Deducting that proportion of labour which goes to the public fund, every worker, therefore, receives from society as much as he has given it.

"Equality" seems to reign supreme.

But when Lassalle, having in view such a social order (generally called Socialism, but termed by Marx the first phase of Communism), speaks of this as "just distribution" and says that this is "the equal right of each to an equal product of labour," Lassalle is mistaken, and Marx exposes his error.

"Equal right," says Marx, "we indeed have here"; but it is *still* a "bourgeois right," which, like every right, *presupposes inequality*. Every right is an application of the *same* measure to *different* people who, in fact, are not the same and are not equal to one another; this is why "equal right" is really a violation of equality, and an injustice. In effect, every man having done as much social labour as every other, receives an equal share of the social products (with the above-mentioned deductions).

But different people are not alike: one is strong, another is weak; one is married, the other is not; one has more children, another has less, and so on.

> . . . With equal labour—Marx concludes—and therefore an equal share in the social consumption fund, one man in fact receives more than the other, one is richer than the other, and so forth. In order to avoid all these defects, rights, instead of being equal, must be unequal.

The first phase of Communism, therefore, still cannot produce justice and equality; differences, and unjust differences, in wealth will still exist, but the *exploitation* of man by man will have become impossible, because it will be impossible to seize as private property the *means of production*, the factories, machines, land, and so on. In tearing down Lassalle's petty-bourgeois, confused phrase about "equality" and "justice" *in general*, Marx shows the *course of development* of Communist society, which is forced at first to destroy *only* the "injustice" that consists in the means of production having been seized by private individuals, and which *is not capable* of destroying at once the further injustice consisting in the distribution of the articles of consumption "according to work performed" (and not according to need).

The vulgar economists, including the bourgeois professors and also

"our" Tugan-Baranovsky, constantly reproach the Socialists with forgetting the inequality of people and with "dreaming" of destroying this inequality. Such a reproach, as we see, only proves the extreme ignorance of the gentlemen propounding bourgeois ideology.

Marx not only takes into account with the greatest accuracy the inevitable inequality of men; he also takes into account the fact that the mere conversion of the means of production into the common property of the whole of society ("Socialism" in the generally accepted sense of the word) *does not remove* the defects of distribution and the inequality of "bourgeois right" which *continue to rule* as long as the products are divided "according to work performed."

> But these defects—Marx continues—are unavoidable in the first phase of Communist society, when, after long travail, it first emerges from capitalist society. Justice can never rise superior to the economic conditions of society and the cultural development conditioned by them.

And so, in the first phase of Communist society (generally called Socialism) "bourgeois right" is *not* abolished in its entirety, but only in part, only in proportion to the economic transformation so far attained, i.e., only in respect of the means of production. "Bourgeois right" recognises them as the private property of separate individuals. Socialism converts them into common property. *To that extent,* and to that extent alone, does "bourgeois right" disappear.

However, it continues to exist as far as its other part is concerned; it remains in the capacity of regulator (determining factor) distributing the products and allotting labour among the members of society. "He who does not work, shall not eat"—this Socialist principle is *already* realised; "for an equal quantity of labour, an equal quantity of products"—this Socialist principle is also *already* realised. However, this is not yet Communism, and this does not abolish "bourgeois right," which gives to unequal individuals, in return for an equal (in reality unequal) amount of work, an equal quantity of products.

This is a "defect," says Marx, but it is unavoidable during the first phase of Communism; for, if we are not to fall into Utopianism, we cannot imagine that, having overthrown capitalism, people will at once learn to work for society *without any standards of right;* indeed, the abolition of capitalism *does not immediately lay* the economic foundations for *such* a change.

And there is no other standard yet than that of "bourgeois right." To this extent, therefore, a form of State is still necessary, which

while maintaining public ownership of the means of production, would preserve the equality of labour and equality in the distribution of products.

The State is withering away in so far as there are no longer any capitalists, any classes, and, consequently, no *class* can be suppressed.

But the State has not yet altogether withered away, since there still remains the protection of "bourgeois right" which sanctifies actual inequality. For the complete extinction of the State, complete Communism is necessary.

Higher Phase of Communist Society

Marx continues:

> In a higher phase of Communist society, when the enslaving subordination of individuals in the division of labour has disappeared, and with it also the antagonism, between mental and physical labour; when labour has become not only a means of living, but itself the first necessity of life; when, along with the all-round development of individuals, the productive forces too have grown, and all the springs of social wealth are flowing more freely—it is only at that stage that it will be possible to pass completely beyond the narrow horizon of bourgeois rights, and for society to inscribe on its banners: from each according to his ability: to each according to his needs!

Only now can we appreciate the full correctness of Engels' remarks in which he mercilessly ridiculed all the absurdity of combining the words "freedom" and "state." While the State exists there is no freedom. When there is freedom, there will be no State.

The economic basis for the complete withering away of the State is that high stage of development of Communism when the antagonism between mental and physical labour disappears, that is to say, when one of the principal sources of modern *social* inequality disappears—a source, moreover, which it is impossible to remove immediately by the mere conversion of the means of production into public property, by the mere expropriation of the capitalists.

This expropriation will make a gigantic development of the productive forces *possible*. And seeing how incredibly, even now, capitalism *retards* this development, how much progress could be made even on the basis of modern technique at the level it has reached, we have a right to say, with the fullest confidence, that the expropriation of the capitalists will inevitably result in a gigantic development of the productive forces of human society. But how rapidly this development

will go forward, how soon it will reach the point of breaking away from the division of labour, of removing the antagonism between mental and physical labour, of transforming work into the "first necessity of life"—this we do not and *cannot* know.

Consequently, we have a right to speak solely of the inevitable withering away of the State, emphasising the protracted nature of this process and its dependence upon the rapidity of development of the *higher phase* of Communism; leaving quite open the question of lengths of time, or the concrete forms of withering away, since material for the solution of such questions is *not available.*

The State will be able to wither away completely when society has realised the rule: "From each according to his ability; to each according to his needs," i.e., when people have become accustomed to observe the fundamental rules of social life, and their labour is so productive, that they voluntarily work *according to their ability.* "The narrow horizon of bourgeois rights," which compels one to calculate, with the hard-heartedness of a Shylock, whether he has not worked half an hour more than another, whether he is not getting less pay than another—this narrow horizon will then be left behind. There will then be no need for any exact calculation by society of the quantity of products to be distributed to each of its members; each will take freely "according to his needs."

From the bourgeois point of view, it is easy to declare such a social order "a pure Utopia," and to sneer at the Socialists for promising each the right to receive from society, without any control of the labour of the individual citizen, any quantity of truffles, automobiles, pianos, etc. Even now, most bourgeois "savants" deliver themselves of such sneers, thereby displaying at once their ignorance and their self-seeking defence of capitalism.

Ignorance—for it has never entered the head of any Socialist to "promise" that the highest phase of Communism will arrive; while the great Socialists, in *foreseeing* its arrival, presupposed both a productivity of labour unlike the present and a person not like the present man in the street, capable of spoiling, without reflection, like the seminary students in Pomyalovsky's book, the stores of social wealth, and of demanding the impossible.

Until the "higher" phase of Communism arrives, the Socialists demand the *strictest* control, *by society and by the State,* of the quantity of labour and the quantity of consumption; only this conrol must *start* with the expropriation of the capitalists, with the control of the workers over the capitalists, and must be carried out, not by a State of bureaucrats, but by a State of *armed workers.*

Self-seeking defence of capitalism by the bourgeois ideologists (and their hangers-on like Tsereteli, Chernov and Co.) consists in that they *substitute* disputes and discussions about the distant future for the essential imperative questions of present-day policy: the expropriation of the capitalists, the conversion of *all* citizens into workers and employees of *one* huge "syndicate"—the whole State—and the complete subordination of the whole of the work of this syndicate to the really democratic State of the *Soviets of Workers' and Soldiers' Deputies.*

In reality, when a learned professor, and following him some philistine, and following the latter Messrs. Tsereteli and Chernov, talk of the unreasonable Utopias, of the demagogic promises of the Bolsheviks, of the impossibility of "introducing" Socialism, it is the higher stage or phase of Communism which they have in mind, and which no one has ever promised, or even thought of "introducing," for the reason that, generally speaking, it cannot be "introduced."

And here we come to that question of the scientific difference between Socialism and Communism, upon which Engels touched in his above-quoted discussion on the incorrectness of the name "Social-Democrat." The political difference between the first, or lower, and the higher phase of Communism will in time, no doubt, be tremendous; but it would be ridiculous to emphasize it now, under capitalism, and only, perhaps, some isolated Anarchist could invest it with primary importance (if there are still some people among the Anarchists who have learned nothing from the Plekhanov-like conversion of the Kropotkins, the Graveses, the Cornelissens, and other "leading lights" of Anarchism to social-chauvinism or Anarcho-*Jusquaubout*-ism, as Gé, one of the few Anarchists still preserving honour and conscience, has expressed it).

But the scientific difference between Socialism and Communism is clear. What is generally called Socialism was termed by Marx the "first" or lower phase of Communist society. In so far as the means of production become *public* property, the word "Communism" is also applicable here, providing we do not forget that it is *not* full Communism. The great significance of Marx's elucidations consists in this: that here, too, he consistently applies materialist dialectics, the doctrine of development, looking upon Communism as something which evolves *out of* capitalism. Instead of artificial, "elaborate" scholastic definitions and profitless disquisitions on the meaning of words (what Socialism is, what Communism is), Marx gives an analysis of what may be called stages in the economic ripeness of Communism.

In its first phase or first stage Communism *cannot* as yet be eco-

nomically ripe and entirely free of all tradition and of all taint of capitalism. Hence the interesting phenomenon of Communism retaining, in its first phase, "the narrow horizon of bourgeois rights." Bourgeois rights, with respect to distribution of articles of *consumption*, inevitably presupposes, of course, the existence of the *bourgeois State*, for rights are nothing without an apparatus capable of *enforcing* the observance of the rights.

Consequently, for a certain time not only bourgeois rights, but even the bourgeois State remains under Communism, without the bourgeoisie!

This may look like a paradox, or simply a dialectical puzzle for which Marxism is often blamed by people who would not make the least effort to study its extraordinarily profound content.

But, as a matter of fact, the old surviving in the new confronts us in life at every step, in nature as well as in society. Marx did not smuggle a scrap of "bourgeois" rights into Communism of his own accord; he indicated what is economically and politically inevitable in a society issuing *from the womb* of capitalism.

Democracy is of great importance for the working class in its struggle for freedom against the capitalists. But democracy is by no means a limit one may not overstep; it is only one of the stages in the course of development from feudalism to capitalism, and from capitalism to Communism.

Democracy means equality. The great significance of the struggle of the proletariat for equality, and the significance of equality as a slogan, are apparent, if we correctly interpret it as meaning the abolition of *classes*. But democracy means only *formal* equality. Immediately after the attainment of equality for all members of society *in respect* of the ownership of the means of production, that is, of equality of labour and equality of wages, there will inevitably arise before humanity the question of going further from formal equality to real equality, i.e., to realising the rule, "From each according to his ability; to each according to his needs." By what stages, by means of what practical measures humanity will proceed to this higher aim—this we do not and cannot know. But it is important to realise how infinitely mendacious is the usual bourgeois presentation of Socialism as something lifeless, petrified, fixed once for all, whereas in reality, it is *only* with Socialism that there will commence a rapid, genuine, real mass advance, in which first the *majority* and then the whole of the population will take part—an advance in all domains of social and individual life.

Democracy is a form of the State—one of its varieties. Con-

sequently, like every State, it consists in organised, systematic application of force against human beings. This on the one hand. On the other hand, however, it signifies the formal recognition of the equality of all citizens, the equal right of all to determine the structure and administration of the State. This, in turn, is connected with the fact that, at a certain stage in the development of democracy, it first rallies the proletariat as a revolutionary class against capitalism, and gives it an opportunity to crush, to smash to bits, to wipe off the face of the earth the bourgeois State machinery—even its republican variety: the standing army, the police, and bureaucracy; then it substitutes for all this a *more* democratic, but still a State machinery in the shape of armed masses of workers, which becomes transformed into universal participation of the people in the militia.

Here "quantity turns into quality": *such* a degree of democracy is bound up with the abandonment of the framework of bourgeois society, and the beginning of its Socialist reconstruction. If *everyone* really takes part in the administration of the State, capitalism cannot retain its hold. In its turn, capitalism, as it develops, itself creates *pre-requisites* for "everyone" *to be able* really to take part in the administration of the State. Among such pre-requisites are universal literacy, already realised in most of the advanced capitalist countries, then the "training and disciplining" of millions of workers by the huge, complex, and socialised apparatus of the post office, the railways, the big factories, large-scale commerce, banking, etc., etc.

With such *economic* pre-requisites it is perfectly possible, immediately, within twenty-four hours after the overthrow of the capitalists and bureaucrats, to replace them, in the control of production and distribution, in the business of control of labour and products, by the armed workers, by the whole people in arms. (The question of control and accounting must not be confused with the question of the scientifically educated staffs of engineers, agronomists and so on. These gentlemen work to-day, obeying the capitalists; they will work even better to-morrow, obeying the armed workers.)

Accounting and control—these are the *chief* things necessary for the organising and correct functioning of the *first phase of* Communist society. *All* citizens are here transformed into hired employees of the State, which is made up of the armed workers. *All* citizens become employees and workers of *one* national State "syndicate." All that is required is that they should work equally, should regularly do their share of work, and should receive equal pay. The accounting and control necessary for this have been *simplified* by capitalism to the utmost, till they have become the extraordinarily simple opera-

tions of watching, recording and issuing receipts, within the reach of anybody who can read and write and knows the first four rules of arithmetic.

When the *majority* of the people begin everywhere to keep such accounts and maintain such control over the capitalists (now converted into employees) and over the intellectual gentry, who still retain capitalist habits, this control will really become universal, general, national; and there will be no way of getting away from it, there will be "nowhere to go."

The whole of society will have become one office and one factory, with equal work and equal pay.

But this "factory" discipline, which the proletariat will extend to the whole of society after the defeat of the capitalists and the overthrow of the exploiters, is by no means our ideal, or our final aim. It is but a *foothold* necessary for the radical cleansing of society of all the hideousness and foulness of capitalist exploitation, *in order to advance further.*

From the moment when all members of society, or even only the overwhelming majority, have learned how to govern the State *themselves,* have taken this business into their own hands, have "established" control over the insignificant minority of capitalists, over the gentry with capitalist leanings, and the workers thoroughly demoralised by capitalism—from this moment the need for any government begins to disappear. The more complete the democracy, the nearer the moment when it begins to be unnecessary. The more democratic the "State" consisting of armed workers, which is "no longer a State in the proper sense of the word," the more rapidly does *every* State begin to wither away.

For when *all* have learned to manage, and independently are actually managing by themselves social production, keeping accounts, controlling the idlers, the gentlefolk, the swindlers and similar "guardians of capitalist traditions," then the escape from this national accounting and control will inevitably become so increasingly difficult, such a rare exception, and will probably be accompanied by such swift and severe punishment (for the armed workers are men of practical life, not sentimental intellectuals, and they will scarcely allow anyone to trifle with them), that very soon the *necessity* of observing the simple, fundamental rules of every-day social life in common will have become a *habit.*

The door will then be wide open for the transition from the first phase of Communist society to its higher phase, and along with it to the complete withering away of the State.

Thorstein Veblen

1857–1929

Among economists Thorstein Veblen today is probably more respected than he is read. Terms like "conspicuous consumption," "vicarious leisure," and "pecuniary emulation," which he added to the language, appear to many economists to consign Veblen either to the ranks of the social ironists or the sociologists. And there is some evidence that Veblen stands highest among members of the latter profession. Certainly Veblen wrote in one of the more baffling styles of his or any other time, a style stiff with polysyllables, learned references to the anthropological literature, and the appearance, almost the caricature, of scholarly objectivity. Yet, he was certainly a critic of capitalism. The book that first brought him to notice, The Theory of the Leisure Class, *could be read, and was read by William Dean Howells, simply as a destructive assault upon the excess of the* nouveaux riches *of the end of the nineteenth century. Yet, what could one make of a man who solemnly told the story of a King of France who burned to death in front of a fire because the servant who should have moved his royal person was absent and his dignified sense of status did not allow him to shift his own person?*

Yet, beneath the conscientious obscurity of Veblen's style there was the voice of an angry man and a savage critic of both capitalism and its economic apologists. The key to Veblen's position is in the Darwinian doctrine of evolution. What was mistaken about the economics both of the classicists and of the Marxists was their propensity for permanent classification—taxonomy. What this passion for taxonomy inevitably neglected was the essentially adaptive function of an economic system. Economic institutions, which Veblen defined as habits of thought, were subject to perpetual evolutionary change. In fact, ". . . whatever is, is wrong." For Veblen, the best way to

trace this evolutionary adaptation in economic society was to identify adaptations that were friendly to nature's purposes and those that were hostile.

In the first class belonged the category of habits and attitudes that could be summarized under the heading, the machine process. In Veblen's words, ". . . wherever manual dexterity, the rule of thumb, and the fortuitous conjunctures of the seasons have been supplanted by a reasoned procedure on the basis of a systematic knowledge of the forces employed, there the mechanical industry is to be found, even in the absence of the intricate mechanical contrivance." The machine process, unless it is perverted, produces biologically serviceable items: nutritious food, durable clothing, and seemly structures. The machine process also gratifies one of man's deep drives, the instinct of workmanship.

It is business enterprise that perverts the machine process. As Veblen described him, the businessman was interested only in profit. Serviceability placed a bad second. At most, businessmen would choose the useful over the useless only if it cost them nothing: ". . . the officials of a railroad commonly prefer to avoid wrecks and manslaughter even if there is no pecuniary advantage in choosing the more humane course." The businessman profits by producing the meretricious, by rigging the stock market, by the intricate maneuvers of the higher finance.

Businessmen and workers opposed each other, then, not for the Marxian reason that the first group owned the tools of production and the second owned nothing but its own labor power, but for the evolutionary reason that the businessman's habit of thought was deeply hostile to proper adaptation and the technician's habit of thought was as deeply sympathetic to evolution's purposes. In The Theory of Business Enterprise (1904), *Veblen identified still a third contending group, addicted to yet another habit of thought. Members of this last group were the remnants of still "older conventions," mainly "soldiers, politicians, the clergy, and men of fashion." The wars that resulted from capitalist rivalries required the services of generals, echoes of a ". . . more archaic situation that preceded the scheme of natural rights . . . absolute government, dynastic politics, devolution of rights and honors, ecclesiastical authority, and popular submission and squalor."*

What was the likely outcome? Business enterprise was inevitably doomed. So much was certain. In 1904 Veblen contemplated the possible victory of the generals and, thus, a return to a more archaic situation. But in The Engineers and the Price System, *written twenty*

years later, he forecast the triumph of the engineers. The present selection, from that late work, is a speculation upon the nature of the society that engineers might organize. There are those who might prefer, after reading Veblen, the wastes of capitalism to the austere verities of the engineering order. It is the final irony in the influence of an old ironist, that Howard Scott's pleasantly crackpot Technocracy, during the 1930's, harked directly back to Veblen.

This selection is taken from "The Engineers and the Price System," by Thorstein Veblen, pp. 438-53, from The Portable Veblen, *edited by Max Lerner. Copyright, 1921, by B. W. Huebsch, Inc., renewed, 1949, by Ann B. Sims. Reprinted by permission of The Viking Press, Inc.*

The Technicians and Revolution

By reason of doctrinal consistency and loyalty to tradition, the certified economists have habitually described business enterprise as a rational arrangement for administering the country's industrial system and assuring a full and equitable distribution of consumable goods to the consumers. There need be no quarrel with that view. But it is only fair to enter the reservation that, considered as an arrangement for administering the country's industrial system, business enterprise based on absentee ownership has the defects of its qualities; and these defects of this good old plan are now calling attention to themselves. Hitherto, and ever since the mechanical industry first came into the dominant place in this industrial system, the defects of this businesslike management of industry have continually been encroaching more and more on its qualities. It took its rise as a system of management by the owners of the industrial equipment, and it has in its riper years grown into a system of absentee ownership managed by quasi-responsible financial agents. Having begun as an industrial community which centered about an open market, it has matured into a community of Vested Interests whose vested right it is to keep up prices by a short supply in a closed market. There is no extravagance in saying that, by and large, this arrangement for controlling the production and distribution of goods and services through the agency of absentee ownership has now come to be, in the main, a blundering muddle of defects. For the purpose in hand, that is to say with a view to the probable chance of any revolutionary overturn, this may serve as a fair characterisation of the régime of the Vested Interests; whose continued rule is now believed by their

Guardians to be threatened by a popular uprising in the nature of Bolshevism.

Now, as to the country's industrial system which is manhandled on this businesslike plan; it is a comprehensive and balanced scheme of technological administration. Industry of this modern sort—mechanical, specialised, standardised, running to quantity production, drawn on a large scale—is highly productive; provided always that the necessary conditions of its working are met in some passable fashion. These necessary conditions of productive industry are of a well-defined technical character, and they are growing more and more exacting with every farther advance in the industrial arts. This mechanical industry draws always more and more largely and urgently on the natural sources of mechanical power, and it necessarily makes use of an ever increasingly wide and varied range of materials, drawn from all latitudes and all geographical regions, in spite of obstructive national frontiers and patriotic animosities; for the mechanical technology is impersonal and dispassionate, and its end is very simply to serve human needs, without fear or favor or respect of persons, prerogatives, or politics. It makes up an industrial system of an unexampled character—a mechanically balanced and interlocking system of work to be done, the prime requisite of whose working is a painstaking and intelligent co-ordination of the processes at work, and an equally painstaking allocation of mechanical power and materials. The foundation and driving force of it all is a massive body by technological knowledge, of a highly impersonal and altogether unbusinesslike nature, running in close contact with the material sciences, on which it draws freely at every turn—exactingly specialised, endlessly detailed, reaching out into all domains of empirical fact.

Such is the system of productive work which has grown out of the Industrial Revolution, and on the full and free run of which the material welfare of all the civilised peoples now depends from day to day. Any defect or hindrance in its technical administration, any intrusion of nontechnical considerations, any failure or obstruction at any point, unavoidably results in a disproportionate set-back to the balanced whole and brings a disproportionate burden of privation on all these peoples whose productive industry has come within the sweep of the system.

It follows that those gifted, trained, and experienced technicians who now are in possession of the requisite technological information and experience are the first and instantly indispensable factor in the everyday work of carrying on the country's productive industry. They now constitute the General Staff of the industrial system, in fact;

whatever law and custom may formally say in protest. The "captains of industry" may still vain-gloriously claim that distinction, and law and custom still countenance their claim; but the captains have no technological value, in fact.

Therefore any question of a revolutionary overturn, in America or in any other of the advanced industrial countries, resolves itself in practical fact into a question of what the guild of technicians will do. In effect it is a question whether the discretion and responsibility in the management of the country's industry shall pass from the financiers, who speak for the Vested Interests, to the technicians, who speak for the industrial system as a going concern. There is no third party qualified to make a colourable bid, or able to make good its pretensions if it should make a bid. So long as the vested rights of absentee ownership remain intact, the financial powers—that is to say the Vested Interests—will continue to dispose of the country's industrial forces for their own profit; and so soon, or so far, as these vested rights give way, the control of the people's material welfare will pass into the hands of the technicians. There is no third party.

The chances of anything like a Soviet in America, therefore, are the chances of a Soviet of technicians. And, to the due comfort of the Guardians of the Vested Interests and the good citizens who make up their background, it can be shown that anything like a Soviet of Technicians is at the most a remote contingency in America.

It is true, so long as no such change of base is made, what is confidently to be looked for is a régime of continued and increasing shame and confusion, hardship and dissension, unemployment and privation, waste and insecurity of person and property—such as the rule of the Vested Interests in business has already made increasingly familiar to all the civilised peoples. But the vested rights of absentee ownership are still embedded in the sentiments of the underlying population, and still continue to be the Palladium of the Republic; and the assertion is still quite safe that anything like a Soviet of Technicians is not a present menace to the Vested Interests in America.

By settled habit the technicians, the engineers and industrial experts, are a harmless and docile sort, well fed on the whole, and somewhat placidly content with the "full dinner-pail" which the lieutenants of the Vested Interests habitually allow them. It is true, they constitute the indispensable General Staff of that industrial system which feeds the Vested Interests; but hitherto at least, they have had nothing to say in the planning and direction of this industrial system, except as employees in the pay of the financiers. They have, hitherto, been quite unreflectingly content to work piecemeal, without much

of an understanding among themselves, unreservedly doing job-work for the Vested Interests; and they have without much reflection lent themselves and their technical powers freely to the obstructive tactics of the captains of industry; all the while that the training which makes them technicians is but a specialised extension of that joint stock of technological knowledge that has been carried forward out of the past by the community at large.

But it remains true that they and their dear-bought knowledge of ways and means—dear-bought on the part of the underlying community—are the pillars of that house of industry in which the Vested Interests continue to live. Without their continued and unremitting supervision and direction the industrial system would cease to be a working system at all; whereas it is not easy to see how the elimination of the existing businesslike control could bring anything but relief and heightened efficiency to this working system. The technicians are indispensable to productive industry of this mechanical sort; the Vested Interests and their absentee owners are not. The technicians are indispensable to the Vested Interests and their absentee owners, as a working force without which there would be no industrial output to control or divide; whereas the Vested Interests and their absentee owners are of no material consequence to the technicians and their work, except as an extraneous interference and obstruction.

It follows that the material welfare of all the advanced industrial peoples rests in the hands of these technicians, if they will only see it that way, take counsel together, constitute themselves the self-directing General Staff of the country's industry, and dispense with the interference of the lieutenants of the absentee owners. Already they are strategically in a position to take the lead and impose their own terms of leadership, so soon as they, or a decisive number of them, shall reach a common understanding to that effect and agree on a plan of action.

But there is assuredly no present promise of the technicians' turning their insight and common sense to such a use. There need be no present apprehension. The technicians are a "safe and sane" lot, on the whole; and they are pretty well commercialised, particularly the older generation, who speak with authority and conviction, and to whom the younger generation of engineers defer, on the whole, with such a degree of filial piety as should go far to reassure all good citizens. And herein lies the present security of the Vested Interests, as well as the fatuity of any present alarm about Bolshevism and the like; for the whole-hearted co-operation of the technicians would be as indispensable to any effectual movement of overturn as their un-

wavering service in the employ of the Vested Interests is indispensable to the maintenance of the established order.

It is the purpose of this memorandum to show, in an objective way, that under existing circumstances there need be no fear, and no hope, of an effectual revolutionary overturn in America, such as would unsettle the established order and unseat those Vested Interests that now control the country's industrial system. In an earlier paper it has been argued that no effectual move in the direction of such an overturn can be made except on the initiative and under the direction of the country's technicians, taking action in common and on a concerted plan. Notoriously, no move of this nature has been made hitherto, nor is there evidence that anything of the kind has been contemplated by the technicians. They still are consistently loyal, with something more than a hired-man's loyalty, to the established order of commercial profit and absentee ownership. And any adequate plan of concerted action, such as would be required for the enterprise in question, is not a small matter that can be arranged between two days.

Any plan of action that shall hope to meet the requirements of the case in any passable fashion must necessarily have the benefit of mature deliberation among the technicians who are competent to initiate such an enterprise; it must engage the intelligent co-operation of several thousand technically trained men scattered over the face of the country, in one industry and another; must carry out a passably complete cadastration of the country's industrial forces; must set up practicable organisation tables covering the country's industry in some detail—energy-resources, materials, and man-power; and it must also engage the aggressive support of the trained men at work in transportation, mining, and the greater mechanical industries. These are initial requirements, indispensable to the initiation of any enterprise of the kind in such an industrial country as America; and so soon as this is called to mind it will be realised that any fear of an effectual move in this direction at present is quite chimerical. So that, in fact, it may be set down without a touch of ambiguity that absentee ownership is secure, just yet.

Therefore, to show conclusively and in an objective way how remote any contingency of this nature still is, it is here proposed to set out in a summary fashion the main lines which any such concerted plan of action would have to follow, and what will of necessity be the manner of organisation which alone can hope to take over the industrial system, following the eventual abdication or dispossession of the Vested Interests and their absentee owners. And, by way of pa-

renthesis, it is always the self-made though reluctant abdication of the Vested Interests and their absentee owners, rather than their forcible dispossession, that is to be looked for as a reasonably probable event in the calculable future. It should, in effect, cause no surprise to find that they will, in a sense, eliminate themselves, by letting go quite involuntarily after the industrial situation gets quite beyond their control. In fact, they have, in the present difficult juncture, already sufficiently shown their unfitness to take care of the country's material welfare—which is after all the only ground on which they can set up a colourable claim to their vested rights. At the same time something like an opening bid for a bargain of abdication has already come in from more than one quarter. So that a discontinuance of the existing system of absentee ownership, on one plan or another, is no longer to be considered a purely speculative novelty; and an objective canvass of the manner of organisation that is to be looked to to take the place of the control now exercised by the Vested Interests—in the event of their prospective abdication—should accordingly have some present interest, even apart from its bearing on the moot question of any forcible disruption of the established system of absentee ownership.

As a matter of course, the powers and duties of the incoming directorate will be of a technological nature, in the main if not altogether; inasmuch as the purpose of its coming into control is the care of the community's material welfare by a more competent management of the country's industrial system. It may be added that even in the unexpected event that the contemplated overturn should, in the beginning, meet with armed opposition from the partisans of the old order, it will still be true that the duties of the incoming directorate will be of a technological character, in the main; inasmuch as warlike operations are also now substantially a matter of technology, both in the immediate conduct of hostilities and in the still more urgent work of material support and supply.

The incoming industrial order is designed to correct the shortcomings of the old. The duties and powers of the incoming directorate will accordingly converge on those points in the administration of industry where the old order has most signally fallen short; that is to say, on the due allocation of resources and a consequent full and reasonably proportioned employment of the available equipment and man-power; on the avoidance of waste and duplication of work; and on an equitable and sufficient supply of goods and services to consumers. Evidently the most immediate and most urgent work to be taken

over by the incoming directorate is that for want of which under the old order the industrial system has been working slack and at cross purposes; that is to say the due allocation of available resources, in power, equipment, and materials, among the greater primary industries. For this necessary work of allocation there has been substantially no provision under the old order.

To carry on this allocation, the country's transportation system must be placed at the disposal of the same staff that has the work of allocation to do; since, under modern conditions, any such allocation will take effect only by use of the transportation system. But, by the same token, the effectual control of the distribution of goods to consumers will also necessarily fall into the same hands; since the traffic in consumable goods is also a matter of transportation, in the main.

On these considerations, which would only be reinforced by a more detailed inquiry into the work to be done, the central directorate will apparently take the shape of a loosely tripartite executive council, with power to act in matters of industrial administration; the council to include technicians whose qualifications enable them to be called Resource Engineers, together with similarly competent spokesmen of the transportation system and of the distributive traffic in finished products and services. With a view to efficiency and expedition, the executive council will presumably not be a numerous body; although its staff of intelligence and advice may be expected to be fairly large, and it will be guided by current consultation with the accredited spokesmen (deputies, commissioners, executives, or whatever they may be called) of the several main subdivisions of productive industry, transportation, and distributive traffic.

Armed with these powers and working in due consultation with a sufficient ramification of subcentres and local councils, this industrial directorate should be in a position to avoid virtually all unemployment of serviceable equipment and man-power on the one hand, and all local or seasonal scarcity on the other hand. The main line of duties indicated by the character of the work incumbent on the directorate, as well as the main line of qualifications in its personnel, both executive and advisory, is such as will call for the services of Production Engineers, to use a term which is coming into use. But it is also evident that in its continued work of planning and advisement the directorate will require the services of an appreciable number of consulting economists; men who are qualified to be called Production Economists.

The profession now includes men with the requisite qualifications, although it cannot be said that the gild of economists is made up

of such men in the main. Quite blamelessly, the economists have, by tradition and by force of commercial pressure, habitually gone in for a theoretical inquiry into the ways and means of salesmanship, financial traffic, and the distribution of income and property, rather than a study of the industrial system considered as a ways and means of producing goods and services. Yet there now are, after all, especially among the younger generation, an appreciable number, perhaps an adequate number, of economists who have learned that "business" is not "industry" and that investment is not production. And, here as always, the best is good enough, perforce.

"Consulting economists" of this order are a necessary adjunct to the personnel of the central directorate, because the technical training that goes to make a resource engineer, or a production engineer, or indeed a competent industrial expert in any line of specialisation, is not of a kind to give him the requisite sure and facile insight into the play of economic forces at large; and as a matter of notorious fact, very few of the technicians have gone at all far afield to acquaint themselves with anything more to the point in this connection than the half-forgotten commonplaces of the old order. The "consulting economist" is accordingly necessary to cover an otherwise uncovered joint in the new articulation of things. His place in the scheme is analogous to the part which legal counsel now plays in the manoeuvres of diplomatists and statesmen; and the discretionary personnel of the incoming directorate are to be, in effect, something in the way of industrial statesmen under the new order.

There is also a certain general reservation to be made with regard to personnel, which may conveniently be spoken of at this point. To avoid persistent confusion and prospective defeat, it will be necessary to exclude from all positions of trust and executive responsibility all persons who have been trained for business or who have had experience in business undertakings of the larger sort. This will apply generally, throughout the administrative scheme, although it will apply more imperatively as regards the responsible personnel of the directorate, central and subordinate, together with their staff of intelligence and advice, wherever judgment and insight are essential. What is wanted is training in the ways and means of productive industry, not in the ways and means of salesmanship and profitable investment.

By force of habit, men trained to a businesslike view of what is right and real will be irretrievably biased against any plan of production and distribution that is not drawn in terms of commercial profit and loss and does not provide a margin of free income to go to absentee owners. The personal exceptions to the rule are apparently

very few. But this one point is after all of relatively minor consequence. What is more to the point in the same connection is that the commercial bias induced by their training in businesslike ways of thinking leaves them incapable of anything like an effectual insight into the use of resources or the needs and aims of productive industry, in any other terms than those of commercial profit and loss. Their units and standards of valuation and accountancy are units and standards of price, and of private gain in terms of price; whereas for any scheme of productive industry which runs, not on salesmanship and earnings, but on tangible performances and tangible benefit to the community at large, the valuations and accountancy of salesmanship and earnings are misleading. With the best and most benevolent intentions, men so trained will unavoidably make their appraisals of production and their disposition of productive forces in the only practical terms with which they are familiar, the terms of commercial accountancy; which is the same as saying, the accountancy of absentee ownership and free income; all of which it is the abiding purpose of the projected plan to displace. For the purposes of this projected new order of production, therefore, the experienced and capable business men are at the best to be rated as well-intentioned deaf-mute blind men. Their wisest judgment and sincerest endeavours become meaningless and misguided so soon as the controlling purpose of industry shifts from the footing of profits on absentee investment to that of a serviceable output of goods.

All this abjuration of business principles and businesslike sagacity may appear to be a taking of precautions about a vacant formality; but it is as well to recall that by trained propensity and tradition the business men, great and small, are after all, each in their degree lieutenants of those Vested Interests which the projected organisation of industry is designed to displace—schooled in their tactics and marching under their banners. The experience of the war administration and its management of industry by help of the business men during the past few years goes to show what manner of industrial wisdom is to be looked for where capable and well-intentioned business men are called in to direct industry with a view to maximum production and economy. For its responsible personnel the administration has uniformly drawn on experienced business men, preferably men of successful experience in Big Business; that is to say, trained men with a shrewd eye to the main chance. And the tale of its adventures, so far as a businesslike reticence has allowed them to become known, is an amazing comedy of errors; which runs to substantially the same issue whether it is told of one or another of the many departments,

boards, councils, commissions, and administrations, that have had this work to do.

Notoriously, this choice of personnel has with singular uniformity proved to be of doubtful advisability, not to choose a harsher epithet. The policies pursued, doubtless with the best and most sagacious intentions of which this businesslike personnel have been capable, have uniformly resulted in the safeguarding of investments and the allocation of commercial profits; all the while that the avowed aim of it all, and doubtless the conscientious purpose of the businesslike administrators, has been quantity production of essential goods. The more that comes to light, the more visible becomes the difference between the avowed purpose and the tangible performance. Tangible performance in the way of productive industry is precisely what the business men do not know how to propose, but it is also that on which the possible success of any projected plan of overturn will always rest. Yet it is also to be remarked that even the reluctant and blindfold endeavours of these businesslike administrators to break away from their life-long rule of reasonable earnings, appear to have resulted in a very appreciably increased industrial output per unit of man-power and equipment employed. That such was the outcome under the war administration is presumably due in great part to the fact that the business men in charge were unable to exercise so strict a control over the working force of technicians and skilled operatives during that period of stress.

And here the argument comes in touch with one of the substantial reasons why there need be no present fear of a revolutionary overturn. By settled habit, the American population are quite unable to see their way to entrust any appreciable responsibility to any other than business men; at the same time that such a move of overturn can hope to succeed only if it excludes the business men from all positions of responsibility. This sentimental deference of the American people to the sagacity of its business men is massive, profound, and alert. So much so that it will take harsh and protracted experience to remove it, or to divert it sufficiently for the purpose of any revolutionary diversion. And more particularly, popular sentiment in this country will not tolerate the assumption of responsibility by the technicians, who are in the popular apprehension conceived to be a somewhat fantastic brotherhood of over-specialised cranks, not to be trusted out of sight except under the restraining hand of safe and sane business men. Nor are the technicians themselves in the habit of taking a greatly different view of their own case. They still feel themselves, in the nature of things, to fall into place as employes of

those enterprising business men who are, in the nature of things, elected to get something for nothing. Absentee ownership is secure, just yet. In time, with sufficient provocation, this popular frame of mind may change, of course; but it is in any case a matter of an appreciable lapse of time.

Even such a scant and bare outline of generalities as has been hastily sketched above will serve to show that any effectual overturn of the established order is not a matter to be undertaken out of hand, or to be manoeuvred into shape by makeshifts after the initial move has been made. There is no chance without deliberate preparations from beforehand. There are two main lines of preparations that will have to be taken care of by any body of men who may contemplate such a move: (a) An inquiry into existing conditions and into the available ways and means; and (b) the setting up of practicable organisation tables and a survey of the available personnel. And bound up with this work of preparation, and conditioning it, provision must also be made for the growth of such a spirit of teamwork as will be ready to undertake and undergo this critical adventure. All of which will take time.

Oskar Lange

1904–

The Polish economist, Oskar Lange, followed a distinguished American career of teaching and scholarship at the University of Chicago and elsewhere, with a departure to Poland at the conclusion of the Second World War. He is now an economic adviser to the Polish government, actively engaged in the translation of his own theories of socialist planning into the practical policies of a socialist state.

The present selection is a sample of an interesting tendency in the work of some socialist economists. It is the effort to demonstrate that all the advantages of an ideally competitive price system—freedom of consumer choice, employee liberty to change jobs and locations, economic efficiency, and technical progress—were realizable in a socialist community. Lange describes the kind of markets that could exist even where industry were completely state-owned and administered. To economists part of the theoretical interest of Lange's reasoning was his evocation of equilibrium positions from the day-to-day responses of a socialist bureaucracy to the wishes of individual consumers and employees. Lange's was the best answer to the challenge that Hayek and Von Mises had issued to socialist economists, the challenge of proving that freedom, free markets, and economic efficiency were all compatible with socialism.

Lange actually claimed more than that for his demonstration. Capitalism must suffer, he declared, from serious departures from the ideal virtue which its proponents celebrated. Monopoly, business cycles, excessive inequalities of income distribution, are among its failings. Hence, somewhat paradoxically, the best way to achieve practically the ideal virtues of capitalism implies adoption of socialism which alone can ameliorate capitalism's failings and preserve capitalism's virtues.

This selection is taken from On the Economic Theory of Socialism, *by Oskar Lange and Fred M. Taylor (Minneapolis, Minn.: University of Minnesota Press), pp. 72-86.* *Copyright, 1938, by the University of Minnesota.*

The Trial and Error Procedure in a Socialist Economy

In order to discuss the method of allocating resources in a socialist economy we have to state what kind of socialist society we have in mind. The fact of public ownership of the means of production does not in itself determine the system of distributing consumers' goods and of allocating people to various occupations, nor the principles guiding the production of commodities. Let us now assume that freedom of choice in consumption and freedom of choice of occupation are maintained and that the preferences of consumers, as expressed by their demand prices, are the guiding criteria in production and in the allocation of resources. Later we shall pass to the study of a more centralized socialist system.*

In the socialist system as described we have a genuine market (in the institutional sense of the word) for consumers' goods and for the services of labor. But there is no market for capital goods and productive resources outside of labor.† The prices of capital goods and productive resources outside of labor are thus prices in the generalized sense, i.e., mere indices of alternatives available, fixed for accounting purposes. Let us see how economic equilibrium is determined in such a system. Just as in a competitive individualist regime, the determination of equilibrium consists of two parts. (A) On the basis of *given* indices of alternatives (which are market prices in the case of consumers' goods and the services of labor and accounting prices in all other cases) both the individuals participating in the economic

* In pre-war literature the terms socialism and collectivism were used to designate a socialist system as described above and the word communism was used to denote more centralized systems. The classical definition of socialism (and of collectivism) was that of a system which socializes production alone, while communism was defined as socializing both production and consumption. At the present time these words have become political terms with special connotations.

† To simplify the problem we assume that all means of production are public property. Needless to say, in any actual socialist community there must be a large number of means of production privately owned (e.g., by farmers, artisans, and small-scale entrepreneurs). But this does not introduce any new theoretical problem.

system as consumers and as owners of the services of labor and the managers of production and of the ultimate resources outside of labor (i.e., of capital and of natural resources) make decisions according to certain principles. These managers are assumed to be public officials. (B) The prices (whether market or accounting) are determined by the condition that the quantity of each commodity demanded is equal to the quantity supplied. The conditions determining the decisions under A form the *subjective,* while that under B is the *objective,* equilibrium condition. Finally, we have also a condition C, expressing the social organization of the economic system. As the productive resources outside of labor are public property, the incomes of the consumers are divorced from the ownership of those resources and the form of condition C (social organization) is determined by the *principles of income formation adopted.*

The possibility of determining condition C in different ways gives to a socialist society considerable freedom in matters of distribution of income. But the necessity of maintaining freedom in the choice of occupation limits the arbitrary use of this freedom, for there must be some connection between the income of a consumer and the services of labor performed by him. It seems, therefore, convenient to regard the income of consumers as composed of two parts: one part being the receipts for the labor services performed and the other part being a social dividend constituting the individual's share in the income derived from the capital and the natural resources owned by society. We assume that the distribution of the social dividend is based on certain principles, reserving the content of those principles for later discussion. Thus condition C is determinate and determines the incomes of the consumers in terms of prices of the services of labor and social dividend, which, in turn, may be regarded as determined by the total yield of capital and of the natural resources and by the principles adopted in distributing this yield.*

A. Let us consider the subjective equilibrium condition in a socialist economy:

1. Freedom of choice in consumption being assumed,† this part

* In formulating condition C capital accumulation has to be taken into account. Capital accumulation may be done either "corporately" by deducting a certain part of the national income before the social dividend is distributed, or it may be left to the savings of individuals, or both methods may be combined. But "corporate" accumulation must certainly be the dominant form of capital formation in a socialist economy.

† Of course there may be also a sector of socialized consumption the cost of which is met by taxation. Such a sector exists also in capitalist society and comprises the provision not only of collective wants, in Cassel's sense,

of the subjective equilibrium condition of a competitive market applies also to the market for consumers' goods in a socialist economy. The incomes of the consumers and the prices of consumers' goods being given, the demand for consumers' goods is determined.

2. The decisions of the managers of production are no longer guided by the aim of maximizing profit. Instead, certain rules are imposed on them by the Central Planning Board which aim at satisfying consumers' preferences in the best way possible. These rules determine the combination of factors of production and the scale of output.

One rule must impose the choice of the combination of factors which minimizes the average cost of production. This rule leads to the factors being combined in such proportion that the marginal productivity of that amount of each factor which is worth a unit of money is the same for all factors. This rule is addressed to whoever makes decisions involving the problem of the optimum combination of factors, i.e., to managers responsible for running existing plants and to those engaged in building new plants. A second rule determines the scale of output by stating that output has to be fixed so that marginal cost is equal to the price of the product. This rule is addressed to two kinds of persons. First of all, it is addressed to the managers of plants and thus determines the scale of output of each plant and, together with the first rule, its demand for factors of production. The first rule, to whomever addressed, and the second rule when addressed to the managers of plants perform the same function that in a competitive system is carried out by the private producer's aiming to maximize his profit, when the prices of factors and of the product are independent of the amount of each factor used by him and of his scale of output.

The total output of an industry has yet to be determined. This is done by addressing the second rule also to the managers of a whole industry (e.g., to the directors of the National Coal Trust) as a principle to guide them in deciding whether an industry ought to be expanded (by building new plants or enlarging old ones) or contracted (by not replacing plants which are wearing out). Thus each industry has to produce exactly as much of a commodity as can be sold or "accounted for" to other industries at a price which equals the marginal cost incurred *by the industry* in producing this amount. The

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but also of other wants whose social importance is too great to be left to the free choice of individuals (for instance, free hospital service and free education). But this problem does not represent any theoretical difficulty and we may disregard it.

marginal cost incurred by an industry is the cost to that industry (not to a particular plant) of doing whatever is necessary to produce an additional unit of output, the optimum combination of factors being used. This may include the cost of building new plants or enlarging old ones.*

Addressed to the managers of an industry, the second rule performs the function which under free competition is carried out by the free entry of firms into an industry or their exodus from it: i.e., it determines the output of an industry.† The second rule, however, has to be carried out irrespective of whether average cost is covered or not, even if it should involve plants or whole industries in losses.

Both rules can be put in the form of the simple request to use always the method of production (i.e., combination of factors) which minimizes average cost and to produce as much of each service or commodity as will equalize marginal cost and the price of the product, this request being addressed to whoever is responsible for the particular decision to be taken. Thus the output of each plant and industry and the total demand for factors of production by each industry are determined. To enable the managers of production to follow these rules the prices of the factors and of the products must, of

* Since in practice such marginal cost is not a continuous function of output we have to compare the cost of each additional *indivisible input* with the receipts expected from the additional output thus secured. For instance, in a railway system as long as there are unused carriages the cost of putting them into use has to be compared with the additional receipts which may be obtained by doing so. When all the carriages available are used up to capacity, the cost of building and running additional carriages (and locomotives) has to be compared with the additional receipts expected to arise from such action. Finally, the question of building new tracks is decided upon the same principle. Cf. A. P. Lerner, "Statics and Dynamics in Socialist Economics," *Economic Journal*, 47:263-67 (June, 1937).

† The result, however, of following this rule coincides with the result obtained under free competition only in the case of constant returns to the industry (i.e., a homogeneous production function of the first degree). In this case marginal cost incurred by the industry equals average cost. In all other cases the results diverge, for under free competition the output of an industry is such that average cost equals the price of the product, while according to our rule it is marginal cost (incurred by the industry) that ought to be equal to the price. This difference results in profits being made by the industries whose marginal cost exceeds average cost, whereas the industries in which the opposite is the case incur losses. These profits and losses correspond to the taxes and bounties proposed by Professor Pigou in order to bring about under free competition the equality of private and social marginal net product. See A. C. Pigou, *The Economics of Welfare* (3d ed., London, 1929), pp. 223-7.

course, be given. In the case of consumers' goods and services of labor they are determined on a market; in all other cases they are fixed by the Central Planning Board. Those prices being given, the supply of products and the demand for factors are determined.

The reasons for adopting the two rules mentioned are obvious. Since prices are indices of terms on which alternatives are offered, that method of production which will minimize average cost will also minimize the alternatives sacrificed. Thus the first rule means simply that each commodity must be produced with a minimum sacrifice of alternatives. The second rule is a necessary consequence of following consumers' preferences. It means that the marginal significance of each preference which is satisfied has to be equal to the marginal significance of the alternative preferences the satisfaction of which is sacrificed. If the second rule was not observed certain lower preferences would be satisfied while preferences higher up on the scale would be left unsatisfied.

3. Freedom of choice of occupation being assumed, laborers offer their services to the industry or occupation paying the highest wages. For the publicly owned capital and natural resources a price has to be fixed by the Central Planning Board with the provision that these resources can be directed only to industries which are able to "pay," or rather to "account for," this price. This is a consequence of following the consumers' preferences. The prices of the services of the ultimate productive resources being given, their distribution between the different industries is also determined.

B. The subjective equilibrium condition can be carried out only when prices are *given*. This is also true of the decisions of the managers of production and of the productive resources in public ownership. Only when prices are given can the combination of factors which minimizes average cost, the output which equalizes marginal cost and the price of the product, and the best allocation of the ultimate productive resources be determined. But if there is no market (in the institutional sense of the word) for capital goods or for the ultimate productive resources outside of labor, can their prices be determined objectively? Must not the prices fixed by the Central Planning Board necessarily be quite arbitrary? If so, their arbitrary character would deprive them of any economic significance as indices of the terms on which alternatives are offered. This is, indeed, the opinion of Professor Mises.* And the view is shared by Mr. Cole, who says: "A planless economy, in which each entrepreneur takes his decisions apart

* "Economic Calculation in the Socialist Commonwealth," reprinted in *Collectivist Economic Planning*, p. 112.

from the rest, obviously confronts each entrepreneur with a broadly given structure of costs, represented by the current level of wages, rent, and interest. . . . In a planned socialist economy there can be no objective structure of costs. Costs can be imputed to any desired extent. . . . But these imputed costs are not objective, but *fiat* costs determined by the public policy of the State." * This view, however, is easily refuted by recalling the very elements of price theory.

Why is there an objective price structure in a competitive market? Because, as a result of the parametric function of prices, there is generally only *one* set of prices which satisfies the objective equilibrium condition, i.e., equalizes demand and supply of each commodity. The same objective price structure can be obtained in a socialist economy if the *parametric function of prices* is retained. On a competitive market the parametric function of prices results from the number of competing individuals being too large to enable any one to influence prices by his own action. In a socialist economy, production and ownership of the productive resources outside of labor being centralized, the managers certainly can and do influence prices by their decisions. Therefore, the parametric function of prices must be imposed on them by the Central Planning Board as an *accounting rule*. All accounting has to be done *as if* prices were independent of the decisions taken. For purposes of accounting, prices must be treated as constant, as they are treated by entrepreneurs on a competitive market.

The technique of attaining this end is very simple: the Central Planning Board has to fix prices and see to it that all managers of plants, industries, and resources do their accounting on the basis of the prices fixed by the Central Planning Board, and not tolerate any use of other accounting. Once the parametric function of prices is adopted as an accounting rule, the price structure is established by the objective equilibrium condition. For each set of prices and consumers' incomes a definite amount of each commodity is supplied and demanded. Condition C determines the incomes of the consumers by the prices of the services of ultimate productive resources and the principles adopted for the distribution of the social dividend. With those principles given, prices alone are the variables determining the demand and supply of commodities.

The condition that the quantity demanded and supplied has to be equal for each commodity serves to select the equilibrium prices which alone assure the compatibility of all decisions taken. *Any price different from the equilibrium price would show at the end of the*

* G. D. H. Cole, *Economic Planning* (New York, 1935), pp. 183-4.

accounting period a surplus or a shortage of the commodity in question. Thus the accounting prices in a socialist economy, far from being arbitrary, have quite the same objective character as the market prices in a regime of competition. Any mistake made by the Central Planning Board in fixing prices would announce itself in a very objective way—by a physical shortage or surplus of the quantity of the commodity or resources in question—and would have to be corrected in order to keep production running smoothly. As there is generally only one set of prices which satisfies the objective equilibrium condition, both the prices of products and costs* are uniquely determined.†

Our study of the determination of equilibrium prices in a socialist economy has shown that the process of price determination is quite analogous to that in a competitive market. The Central Planning Board performs the functions of the market. It establishes the rules for combining factors of production and choosing the scale of output of a plant, for determining the output of an industry, for the allocation of resources, and for the parametric use of prices in accounting. Finally, it fixes the prices so as to balance the quantity supplied and demanded of each commodity. It follows that a substitution of planning for the functions of the market is quite possible and workable.

Two problems deserve some special attention. The first relates to the determination of the best distribution of the social dividend. Freedom of choice of occupation assumed, the distribution of the social dividend may affect the amount of services of labor offered to different industries. If certain occupations received a larger social dividend than others, labor would be diverted into the occupations receiving a larger dividend. Therefore, the distribution of the social

* Hayek maintains that it would be impossible to determine the value of durable instruments of production because, in consequence of changes, "the value of most of the more durable instruments of production has little or no connection with the costs which have been incurred in their production" (*Collectivist Economic Planning*, p. 227). It is quite true that the value of such durable instruments is essentially a capitalized quasi-rent and therefore can be determined only after the price which will be obtained for the product is known (cf. *ibid.*, p. 228). But there is no reason why the price of the product should be any less determinate in a socialist economy than on a competitive market. The managers of the industrial plant in question have simply to take the price fixed by the Central Planning Board as the basis of their calculation. The Central Planning Board would fix this price so as to satisfy the objective equilibrium condition, just as a competitive market does.

† However, in certain cases there may be a multiple solution.

dividend must be such as not to interfere with the optimum distribution of labor services between the different industries and occupations. The optimum distribution is that which makes the differences of the value of the marginal product of the services of labor in different industries and occupations equal to the differences in the marginal disutility* of working in those industries or occupations.† This distribution of the services of labor arises automatically whenever wages are the only source of income. *Therefore, the social dividend must be distributed so as to have no influence whatever on the choice of occupation.* The social dividend paid to an individual must be entirely independent of his choice of occupation. For instance, it can be divided equally per head of population, or distributed according to age or size of family or any other principle which does not affect the choice of occupation.

The other problem is the determination of the rate of interest. We have to distinguish between a short-period and a long-period solution of the problem. For the former the amount of capital is regarded as constant, and the rate of interest is simply determined by the condition that the demand for capital is equal to the amount available. When the rate of interest is set too low the socialized banking system would be unable to meet the demand of industries for capital; when the interest rate is set too high there would be a surplus of capital available for investment. However, in the long period the amount of capital can be increased by accumulation. If the accumulation of capital is performed "corporately" before distributing the social dividend to the individuals, the rate of accumulation can be determined by the Central Planning Board *arbitrarily*. The Central Planning Board will probably aim at accumulating enough to make the marginal *net*

* It is only the *relative* disutility of different occupations that counts. The absolute disutility may be zero or even negative. By putting leisure, safety, agreeableness of work, etc., into the preference scales, all labor costs may be expressed as opportunity costs. If such a device is adopted each industry or occupation may be regarded as producing a joint product: the commodity or service in question *and* leisure, safety, agreeableness of work, etc. The services of labor have to be allocated so that the value of this marginal *joint* product is the same in all industries and occupations.

† If the total amount of labor performed is not limited by legislation or custom regulating the hours of work, etc., the value of the marginal product of the services of labor in each occupation has to be *equal* to the marginal disutility. If any limitational factors are used, it is the marginal *net* product of the services of labor (obtained by deducting from the marginal product the marginal expenditure for the limitational factors) which has to satisfy the condition in the text.

productivity of capital zero,* this aim being never attained because of technical progress (new labor-saving devices), increase of population, the discovery of new natural resources, and, possibly, because of the shift of demand toward commodities produced by more capital-intensive methods.† But the rate, i.e., the *speed,* at which accumulation progresses is arbitrary.

The arbitrariness of the rate of capital accumulation "corporately" performed means simply that the decision regarding the rate of accumulation reflects how the Central Planning Board, and not the consumers, evaluate the optimum time-shape of the income stream. One may argue, of course, that this involves a diminution of consumers' welfare. This difficulty could be overcome only by leaving all accumulation to the saving of individuals.‡ But this is scarcely compatible with the organization of a socialist society.§ Discussion of this point is postponed to a later part of this essay.

Having treated the theoretical determination of economic equilibrium in a socialist society, let us see how equilibrium can be determined by a method of *trial and error* similar to that in a competitive market. This method of trial and error is based on the *parametric function of prices.* Let the Central Planning Board start with a given set of prices chosen *at random.* All decisions of the managers of production and of the productive resources in public ownership and also all decisions of individuals as consumers and as suppliers of labor are made on the basis of these prices. As a result of these decisions the quantity demanded and supplied of each commodity is determined. If the quantity demanded of a commodity is not equal to the quantity supplied, the price of that commodity has to be changed. It

* Cf. Knut Wicksell, "Professor Cassel's System of Economics," reprinted in his *Lectures on Political Economy* (L. Robbins, ed., 2 vols., London, 1934), Vol. I, p. 241.

† These changes, however, if very frequent, may act also in the opposite direction and diminish the marginal *net* productivity of capital because of the risk of obsolescence due to them. This is pointed out by A. P. Lerner in "A Note on Socialist Economics," *Review of Economic Studies,* October, 1936, p. 72.

‡ This method has been advocated by Barone in "The Ministry of Production in the Collectivist State," *Collectivist Economic Planning,* pp. 278-9.

§ Of course, the consumers remain free to save as much as they want out of the income which is actually paid out to them, and the socialized banks could pay interest on savings. As a matter of fact, in order to prevent hoarding they would have to do so. But *this* rate of interest would not have any necessary connection with the marginal *net* productivity of capital. It would be quite arbitrary.

has to be raised if demand exceeds supply and lowered if the reverse is the case. Thus the Central Planning Board fixes a new set of prices which serves as a basis for new decisions, and which results in a new set of quantities demanded and supplied. Through this process of trial and error equilibrium prices are finally determined. Actually the process of trial and error would, of course, proceed on the basis of the prices *historically given*. Relatively small adjustments of those prices would constantly be made, and there would be no necessity of building up an entirely new price system.

Part VII

THE TECHNIQUES OF ECONOMICS

Carl Menger

1840–1921

In the opinion of many economists, their subject began to become a science only in the 1870's. The 1870's witnessed the final destruction of the labor theory of value as the central explanation of commodity prices in competitive markets. In its place was erected an analysis of pricing that rested upon the assumptions of consumer rationality, diminishing marginal utility, and wide consumer choice among appealing commodities. Although anticipations of this theoretical achievement are to be found in Nassau Senior in England, Augustin Cournot in France, and J. H. von Thünen in Germany, full-scale treatises that embodied and applied marginal principles to product pricing initially, and the pricing of services subsequently, were the work of the 1870's and the specific contributions of W. S. Jevons in England, Léon Walras in France, and Carl Menger in Germany.

Menger's Principles of Economics *appeared in 1871. In Germany not only were English classical economics in disrepute but economic theory itself was held in low regard. This intellectual fact was the explanation of the amount of time that Menger spent in defending the method of abstract analysis against the attacks of the exponents of the historical school. The* Methodenstreit, *or Battle over Methods, which his* Principles *initiated, lasted for over a generation until those concerned were utterly exhausted. In retrospect, nothing could appear more futile than arguments over the natural superiority of either historical or analytical techniques. Some problems yielded more easily to the first approach and others to the second. So much any sensible man should have been able to see. But the absence of such sense is testified to in Schmoller's pronouncement that no partisan of the analytical method should get a teaching post in Germany. Schmoller, Menger's leading antagonist, was sufficiently influential in the aca-*

demic community to make his words much more than an idle threat.

In the passage that follows Menger defended his own conception of economic reasoning. In his endeavor to ". . . demonstrate . . . that the phenomena of economic life, like those of nature, are ordered strictly in accordance with definite laws," Menger explicitly confines his theory to the "practical activities of economizing men." The conception of economics as the allocation of scarce resources among many competing uses, later advanced by Lionel Robbins, is implicit in his analysis. Like other analysts of similar phenomena, Menger assumes that competition is free and that civilization is sympathetic to the improvement of human rationality.

The passage is from Principles of Economics, *translated by Bert F. Hoselitz, pp. 45-9. Reprinted by permission of the publisher, The Free Press of Glencoe. Copyright, 1950, by The Free Press. Professor Hoselitz's excellent translation makes available what is in many regards the clearest of the great marginalist texts.*

Economic Method

The impartial observer can have no doubt about the reason our generation pays general and enthusiastic tribute to progress in the field of the natural sciences, while economic science receives little attention and its value is seriously questioned by the very men in society to whom it should provide a guide for practical action.

Never was there an age that placed economic interests higher than does our own. Never was the need of a scientific foundation for economic affairs felt more generally or more acutely. And never was the ability of practical men to utilize the achievements of science, in all fields of human activity, greater than in our day. If practical men, therefore, rely wholly on their own experience, and disregard our science in its present state of development, it cannot be due to a lack of serious interest or ability on their part. Nor can their disregard be the result of a haughty rejection of the deeper insight a true science would give into the circumstances and relationships determining the outcome of their activity. The cause of such remarkable indifference must not be sought elsewhere than in the present state of our science itself, in the sterility of all past endeavors to find its empirical foundations.

Every new attempt in this direction, however modest the effort, contains its own justification. To aim at the discovery of the fundamentals of our science is to devote one's abilities to the solution of a

problem that is directly related to human welfare, to serve a public interest of the highest importance, and to enter a path where even error is not entirely without merit.

In order to avoid any justifiable doubts on the part of experts, we must not, in such an enterprise, neglect to pay careful attention to past work in all the fields of our science thus far explored. Nor can we abstain from applying criticism, with full independence of judgment, to the opinions of our predecessors, and even to doctrines until now considered definitive attainments of our science. Were we to fail in the first task, we would abandon lightly the whole sum of experience collected by the many excellent minds of all peoples and of all times who have attempted to achieve the same end. Should we fail in the second, we would renounce from the beginning any hope of a fundamental reform of the foundations of our science. These dangers can be evaded by making the views of our predecessors our own, though only after an unhesitating examination, and by appealing from doctrine to experience, from the thoughts of men to the nature of things.

This is the ground on which I* stand. In what follows I have endeavored to reduce the complex phenomena of human economic activity to the simplest elements that can still be subjected to accurate observation, to apply to these elements the measure corresponding to their nature, and constantly adhering to this measure, to investigate the manner in which the more complex economic phenomena evolve from their elements according to definite principles.

This method of research, attaining universal acceptance in the natural sciences, led to very great results, and on this account came mistakenly to be called the natural-scientific method. It is, in reality, a method common to all fields of empirical knowledge, and should properly be called the empirical method. The distinction is important because every method of investigation acquires its own specific character from the nature of the field of knowledge to which it is applied. It would be improper, accordingly, to attempt a natural-scientific orientation of our science.

Past attempts to carry over the peculiarities of the natural-scientific method of investigation uncritically into economics have led to most serious methodological errors, and to idle play with external analogies between the phenomena of economics and those of nature. Bacon said of scholars of this description: "Magna cum vanitate et

* Menger uses an editorial "we" throughout. In conformity with modern usage, we have converted Menger's references to himself from the first person plural to the first person singular.—TR.

desipientia inanes similitudines et sympathias rerum describunt atque etiam quandoque affingunt," * a statement which, strangely enough, is still true today of precisely those writers on economic subjects who continue to call themselves disciples of Bacon while they completely misunderstand the spirit of his method.

If it is stated, in justification of these efforts, that the task of our age is to establish the interconnections between all fields of science and to unify their most important principles, I should like to question seriously the qualifications of our contemporaries to solve this problem. I believe that scholars in the various fields of science can never lose sight of this common goal of their endeavors without damage to their research. But the solution of this problem can be taken up successfully only when the several fields of knowledge have been examined most carefully, and when the laws peculiar to each field have been discovered.

It is now the task of the reader to judge to what results the method of investigation I have adopted has led, and whether I have been able to demonstrate successfully that the phenomena of economic life, like those of nature, are ordered strictly in accordance with definite laws. Before closing, however, I wish to contest the opinion of those who question the existence of laws of economic behavior by referring to human free will, since their argument would deny economics altogether the status of an exact science.

Whether and under what conditions a thing is *useful* to me, whether and under what conditions it is a *good,* whether and under what conditions it is an *economic good,* whether and under what conditions it possesses *value* for me and how large the *measure* of this value is for me, whether and under what conditions an *economic exchange* of goods will take place between two economizing individuals, and the limits within which a *price* can be established if an exchange does occur—these and many other matters are fully as independent of my will as any law of chemistry is of the will of the practicing chemist. The view adopted by these persons rests, therefore, on an easily discernible error about the proper field of our science. For economic theory is concerned, not with practical rules for economic *activity,* but with the *conditions* under which men engage in provident activity directed to the satisfaction of their needs.

* Francis Bacon, *Novum Organum,* II, 27. In *The Philosophical Works of Francis Bacon,* translated by Ellis and Spedding, edited by John M. Robertson, London, 1905, pp. 334-5, this passage reads as follows: "similitudes and sympathies of things that have no reality, . . . they describe and sometimes invent with great vanity and folly."—TR.

Economic theory is related to the practical activities of economizing men* in much the same way that chemistry is related to the operations of the practical chemist. Although reference to freedom of the human will may well be legitimate as an objection to the complete predictability of economic activity, it can never have force as a denial of the conformity to definite laws of phenomena that condition the outcome of the economic activity of men and are entirely independent of the human will. It is precisely phenomena of this description, however, which are the objects of study in our science.

I have devoted special attention to the investigation of the causal connections between economic phenomena involving products and the corresponding agents of production, not only for the purpose of establishing a price theory based upon reality and placing all price phenomena (including interest, wages, ground rent, etc.) together under one unified point of view, but also because of the important insights we thereby gain into many other economic processes heretofore completely misunderstood. This is the very branch of our science, moreover, in which the events of economic life most distinctly appear to obey regular laws.

It was a special pleasure to me that the field here treated, comprising the most general principles of our science, is in no small degree so truly the product of recent development in German political economy, and that the reform of the most important principles of our science here attempted is therefore built upon a foundation laid by previous work that was produced almost entirely by the industry of German scholars.

Let this work be regarded, therefore, as a friendly greeting from a collaborator in Austria, and as a faint echo of the scientific suggestions so abundantly lavished on us Austrians by Germany through the many outstanding scholars she has sent us and through her excellent publications.

* The terms "wirtschaftender Mensch," "wirtschaftendes Individuum," and "wirtschaftende Person" occur continually throughout the work. The adjective "wirtschaftend" does not refer to the properties or motives of individuals but to the activity in which they are engaged. More specifically, it does not refer to "the profit motive" or to "the pursuit of self-interest," but to the act of economizing.—TR.

W. Stanley Jevons

1835–1882

A model mid-Victorian, Jevons possessed a strong sense of duty and a driving aspiration to achieve some great aim. In its Unitarian variant, the noncomformist conscience came to full flower in him. He once remarked, "I began to think I could and ought to do more than others." The thought was characteristic. Yet, he was an intense individualist who suspected free medical services and trade unions, at a time when the latter in particular were winning wide public favor. For his part, he feared that such innovations would undermine the incentives to labor and self-improvement. The plight of the poor aroused in him a mixture of anxiety, trepidation, and sympathy. All three are in this typical passage: "I wish with all my heart to aid in securing all that is good for the masses, yet to give them all they wish and strive for is to endanger much which is good beyond their comprehension." He concluded weakly: ". . . compromise, perhaps, is the only resource." Reform puzzled and worried him. And as for women's rights, he consoled his sister Lucy when she was depressed with these manly words: "I think that women are often quite sufficiently admirable in themselves and their characters without accomplishments and works." History has lost the record of Lucy's reaction.

Jevons found that his intense wish to make his mark as an economist was thwarted by the authority of Mill. Much against his will he was even forced to teach Mill to his Manchester students so that they could pass their civil-service examinations. Undoubtedly his evaluation of Mill suffered the effects of this feeling. But he could also be generous to other economists. Consider his stately correspondence with his great contemporary Léon Walras. After a copy of the first part of Walras's treatise came into his hands, he wrote a letter to Walras that started by complimenting Walras and continued by pointing out that he, Jevons, had reached the same conclusions in

1871, if not in 1862. Was Walras familiar with his book? Would he like a copy? In rapid and honorable reaction, Walras offered to publish an acknowledgment of Jevons's priority in the Journal des Économistes. *This offer Jevons accepted and the correspondence marked the beginning of a firm friendship.*

As an economist, Jevons was that rare phenomenon, a statistical investigator of genius and a theorist of great originality. His book on the Coal Question *won him the favorable mention of Gladstone and the approval of his* bête noire, *John Stuart Mill. With considerable statistical ingenuity, it described the danger to English industrial prosperity of a coming exhaustion of coal stocks. Although his conclusions proved wrong, the analysis was of a high grade. Keynes considered that Jevons's contributions to index number theory equaled all previous work put together.*

As a theorist, Jevons's major contribution was The Theory of Political Economy, *a hasty sketch in many ways, but full of brilliant ideas. Jevons described himself in this book as a mathematician and a Benthamite: ". . . I have attempted to treat Economy as a calculus of pleasure and pain, and have sketched out, almost irrespective of previous opinions, the form which the science as it seems to me, must ultimately take. I have long thought that as it deals with quantities, it must be mathematical in matter if not in language." From the outset, Jevons insisted upon the marginal character of his theory. It centered upon those ". . . critical points where pleasures are nearly, if not quite equal." To Jevons, economics was a deductive science. We must start with such generalizations as the satiability of human wants, the increasing pain of prolonged labor, and men's preference for the "greater apparent good." Value depended entirely on utility. Labor entered the picture only by altering supply and thus the final degree of utility, his term for marginal utility.*

Jevons's claim to membership in the trio in the 1870's who revolutionized economic analysis is not open to question. The marginalist revolution was, nevertheless, not fully accepted in England until Marshall domesticated it in his 1890 Principles of Economics.

The selection is from The Theory of Political Economy, *first published in 1871; 4th ed. (London: Macmillan, 1911), pp. v-viii.*

Value and Utility

The contents of the following pages can hardly meet with ready acceptance among those who regard the Science of Political Economy

as having already acquired a nearly perfect form. I believe it is generally supposed that Adam Smith laid the foundations of this science; that Malthus, Anderson, and Senior added important doctrines; that Ricardo systematised the whole; and, finally, that Mr. J. S. Mill filled in the details and completely expounded this branch of knowledge. Mr. Mill appears to have had a similar notion; for he distinctly asserts that there was nothing in the Laws of Value which remained for himself or any future writer to clear up. Doubtless it is difficult to help feeling that opinions adopted and confirmed by such eminent men have much weight of probability in their favour. Yet, in the other sciences this weight of authority has not been allowed to restrict the free examination of new opinions and theories; and it has often been ultimately proved that authority was on the wrong side.

There are many portions of Economical doctrine which appear to me as scientific in form as they are consonant with facts. I would especially mention the Theories of Population and Rent, the latter a theory of a distinctly mathematical character, which seems to give a clue to the correct mode of treating the whole science. Had Mr. Mill contented himself with asserting the unquestionable truth of the Laws of Supply and Demand, I should have agreed with him. As founded upon facts, those laws cannot be shaken by any theory; but it does not therefore follow that our conception of Value is perfect and final. Other generally accepted doctrines have always appeared to me purely delusive, especially the so-called Wage Fund Theory. This theory pretends to give a solution of the main problem of the science —to determine the wages of labour; yet, on close examination, its conclusion is found to be a mere truism, namely, that the average rate of wages is found by dividing the whole amount appropriated to the payment of wages by the number of those between whom it is divided. Some other supposed conclusions of the science are of a less harmless character, as, for instance, those regarding the advantage of exchange. . . .

In this work I have attempted to treat Economy as a Calculus of Pleasure and Pain, and have sketched out, almost irrespective of previous opinions, the form which the science, as it seems to me, must ultimately take. I have long thought that as it deals throughout with quantities, it must be a mathematical science in matter if not in language. I have endeavoured to arrive at accurate quantitative notions concerning Utility, Value, Labour, Capital, etc., and I have often been surprised to find how clearly some of the most difficult notions, especially that most puzzling of notions *Value*, admit of mathematical analysis and expression. The Theory of Economy thus treated pre-

sents a close analogy to the science of Statical Mechanics, and the Laws of Exchange are found to resemble the Laws of Equilibrium of a lever as determined by the principle of virtual velocities. The nature of Wealth and Value is explained by the consideration of indefinitely small amounts of pleasure and pain, just as the Theory of Statics is made to rest upon the equality of indefinitely small amounts of energy. But I believe that dynamical branches of the Science of Economy may remain to be developed, on the consideration of which I have not at all entered.

Mathematical readers may perhaps think that I have explained some elementary notions, that of the Degree of Utility for instance, with unnecessary prolixity. But it is to the neglect of Economists to obtain clear and accurate notions of quantity and degree of utility that I venture to attribute the present difficulties and imperfections of the science; and I have purposely dwelt upon the point at full length. Other readers will perhaps think that the occasional introduction of mathematical symbols obscures instead of illustrating the subject. But I must request all readers to remember that, as Mathematicians and Political Economists have hitherto been two nearly distinct classes of persons, there is no slight difficulty in preparing a mathematical work on Economy with which both classes of readers may not have some grounds of complaint.

Léon Walras

1834–1910

For some economists Walras's Elements of Pure Economics (Éléments d'Économie Politique Pure) *is the summit of analytical achievement in economics. Certainly the esteem in which theorists hold it has increased rather than diminished with the passage of time. French opinion originally gave Walras a cold exception in the 1870's, partly because his style was, in the words of his patient American translator William Jaffé "crabbed," partly because his political opinions were too radical, and partly because French economics, despite a distinguished theoretical tradition which included Condillac, Cournot, Dupuit, and Say, was in a bad way.*

Walras is usually linked with Menger and Jevons as an independent discoverer of the principle of marginal utility, which he termed rareté. *But Walras went much further than his distinguished contemporaries. His triumph was the completion of the entire mathematical theory of exchange by extension to markets where there were many commodities and many participants. From the theory he derived the doctrine of maximum satisfactions and a mathematical theory of production. His vision was of the economy as a whole and his mathematical constructions amounted to a model of the economy's interrelationships. Necessarily the conception was highly abstract and the determination of actual prices involved the solution of many thousands of simultaneous equations. The newer mathematical techniques such as Leontieff's input-output analysis make practical use of Walras's exposition much more feasible.*

Walras offered separate theories of exchange in consumer's-goods markets, producer-goods markets, service markets, and markets for fixed capital goods. His exposition of how prices might be set in consumer's-goods markets exemplifies his method. Select, he says,

one of these goods as a measure of the others, a unit of account. Call this good the numéraire, *or money. Prices—ratios of exchange—will be "cried at random." At each price, individuals will offer goods or services of which their supply is too great. Each individual seeks to acquire those of which he has too little. Except by accident, the amounts offered and the amounts demanded at each price, will differ. When demand exceeds supply, offering prices will rise. When supply exceeds demand, offering prices drop. Next a new set of prices are cried. Again prices rise or fall according to the relation of demand and offer. After a series of gropings or approximations* (tâtonnements), *equilibrium prices will be reached and exchange will take place. The severe mathematical character of this actual exposition is not disguised in the passage that follows.*

The extract is from Elements of Pure Economics, *by Léon Walras, translated by William Jaffé from the 1926 French edition (Homewood, Ill.: Richard D. Irwin, Inc., 1954), pp. 178-81. Reprinted by permission of the publisher and the American Economic Association.*

Utility and Price

137. Since the utilities and the quantities possessed are, as we have already seen, the primary causes and conditions of the establishment of prices, it follows that they are also the primary causes and conditions of variations in these prices.

Let us suppose equilibrium to be established so that the several traders possess the requisite quantities of each of (A), (B), (C), (D) . . . , which will yield them maximum satisfaction at the prices p_b, p_c, p_d . . . of (B), (C), (D), in terms of (A). Moreover, let us restrict our use of the expressions *increase* and *decrease in utility,* as we did before, to shifts in the want curve which result in an increase or a decrease in the *rareté* or in the intensity of the last want satisfied after the completion of exchange. With this in mind, let us suppose an increase in the utility of (B), in other words, a shift in the want curve of (B) resulting in an increase in the *rareté* of (B) for certain parties. These parties will no longer enjoy maximum satisfaction [by maintaining the *status quo*]. They will, however, find it to their advantage to demand (B) by offering some of their (A), (C), (D) . . . at the prcies p_b, p_c, p_d. . . . Inasmuch as the offer was equal to the demand for each and every one of the commodities (A), (B), (C), (D) . . . at the prices p_b, p_c, p_d . . . [before the

increase in the utility of (B) for some of the traders], there will now be an excess of demand over offer in the case of (B) and an excess of offer over demand in the cases of (A), (C), (D) . . . at these same prices. Hence there will be a rise in p_b. It follows also that the other traders [for whom the utility of (B) had not increased] will no longer enjoy maximum satisfaction [from the previously determined quantities of (A), (B), (C), (D) . . . which they consumed]. They will find it to their advantage, when the price of (B) in terms of (A) becomes greater than p_b, to offer some of their (B) and demand (A), (C), (D) . . . in exchange. Equilibrium will be re-established when the demand and offer for all the commodities (A), (B), (C), (D) . . . become equal again. Thus an increase in the utility of (B) for some individuals will result in an increase in the price of (B). It may also result in a change in the prices of (C), (D). . . . These secondary effects, however, will be less appreciable than the primary effect if there are a great many commodities other than (B) on the market and if, in consequence, the quantity of each commodity exchanged for (B) is very small. Besides, there is no way of knowing whether the prices of (C), (D) . . . will rise or fall; nor can we even know that they will change at all. This is clearly seen when we consider the situation of the *raretés* after the establishment of a new equilibrium on the completion of the secondary exchanges. As a result of these operations, the ratios of the *raretés* of (B) to the *raretés* of (A) will necessarily rise for all parties in the market: not only for those whose utility curve of (B) remained unchanged, and who resold part of their (B) and bought back some (A), (C), (D) . . . [as p_b rose], thus increasing their *raretés* of (B) and decreasing their *raretés* of (A); but also for those whose utility curve of (B) shifted upwards in the first instance so that they bought back some (B) and resold part of their (A), (C), (D) . . . thus bringing about an increase in their *raretés* of (A) accompanied by a still greater increase in their *raretés* of (B). So far as the ratios of the *raretés* (C), (D) . . . to those of (A) are concerned, some will become larger, some smaller, and still others will remain constant. The effect on the prices of (C), (D) . . . will be that some will rise, others fall and still others remain unchanged. We observe, in short, that the *raretés* of (B) must increase for all parties, so that the average *rareté* of (B) will have to increase. The *raretés* of (A), (C), (D) . . . , on the other hand, will increase for some parties and decrease for others, so that their average *raretés* will not change much. We may, if we wish, represent these phenomena graphically and consider a single party in each category. For example, . . . when

party (1) finds that the utility of (B) has risen for him, he buys back some (B) and resells part of his (A) and (D). Party (2) does nothing. Party (3) resells part of his (B) and buys back some (A) and (D). These are the consequences of an increase in the utility of (B). A fall in the utility of (B) for party (1) would obviously have the converse effect, i.e. there would be a fall in the price of (B) and not much change in the prices of (C), (D). . . .

A glance at the utility curves is sufficient to show that an increase in the quantity possessed will result in a decrease in *rareté*, and that a decrease in the quantity possessed will result in an increase in *rareté*. Moreover, we have just seen that *rareté* and price move in the same direction, increasing and decreasing together. The effects of variations in the quantity possessed are, therefore, exactly the opposite of the effects of variations in utility. We may now state the law we are seeking in the following terms: *Given a state of general equilibrium in a market for several commodities where exchanges take place with the aid of a* numéraire, *if the utility of one of these commodities increases or decreases for one or more of the parties, everything else remaining equal, the price of this commodity in terms of the* numéraire *will increase or decrease.*

If the quantity of one of the commodities in the hands of one or more holders increases or decreases, all other things remaining equal, the price of this commodity will decrease or increase.

It should be noted that although any change in prices necessarily implies a change in the determinants of the prices concerned, it does not follow that stability of prices necessarily implies stability of their determinants. In fact, we are prepared to enunciate, without further proof, the following double proposition:

Given several commodities, if both the utility and the quantity of one of these commodities in the hands of one or more parties or holders vary in such a way that the raretés *remain the same, the price of this commodity will not change.*

If the utility and the quantity of all the commodities in the hands of one or more parties or holders vary in such a way that the ratios of the raretés *remain the same, none of the prices will change.*

138. Such is the *law of the variation of equilibrium prices.* When it is combined with the *law of the establishment of equilibrium prices* (§130), we have the scientific formulation of what is known in economics as the LAW OF SUPPLY AND DEMAND. This fundamental law has hitherto been stated either erroneously or in a form devoid of meaning. For example, sometimes it is said: "The price of things is determined by the ratio between supply and demand," which is sup-

posed to explain the establishment of prices; and sometimes: "The price of things varies directly with demand and inversely with supply," which is supposed to explain variations in prices. Now, in the first place, in order to give any meaning at all to these two expressions, which are really identical, it would be necessary to define supply and demand. And, in the second place, however we define these terms, whether we take supply to mean effective offer, or quantity possessed, or quantity in existence; whether we regard demand as tantamount to effective demand, or to extensive utility, or intensive utility, or both extensive and intensive utility, or even virtual utility, so long as we assign to the word ratio its mathematical significance of a quotient, surely price is no more the ratio of demand to supply than it is the ratio of supply to demand, and price no more varies directly with demand and inversely with supply than it varies directly with supply and inversely with demand. I venture, therefore, to assert that, up to the present, this fundamental law of economics has neither been demonstrated nor even correctly formulated. And I go so far as to maintain that it is impossible either to formulate or to demonstrate the law of supply and demand or the two laws of which it is composed, without defining effective demand and effective offer, and showing their relationship to price, or without defining *rareté* and showing its relationship to price too. We can do this only by recourse to the language, the method and the principles of mathematics. Hence we conclude that the use of mathematics is not only possible but necessary and indispensable in the formulation of pure economics. I believe, moreover, that no reader who has followed me up to this point can entertain the slightest doubt as to the validity of this conclusion.

Alfred Marshall

1842–1924

T. W. Hutchison has called Alfred Marshall the great father figure of English economics. Certainly, Marshall conceived his own role as first the conserver of the great tradition of eighteenth- and nineteenth-century English economics and second the teacher of a new generation of economists, and businessmen as well. A true Victorian, Marshall conceived of economics as a means of doing good. He described his own passage from mathematics to economics in the following words: ". . . in my vacations I visited the poorest quarters of several cities and walked through one street after another, looking at the faces of the poorest people. Next, I resolved to make as thorough a study as I could of Political Economy."

Marshall's Principles of Economics, *many years in the writing, finally appeared in 1890, to the instant acclaim of English economists. Appearing two decades after Jevons's* The Theory of Political Economy, *it is studiously modest in its claims to originality. What Marshall had achieved, nevertheless, was a combination of great technical novelty and masterly synthesis of other men's work. The technical novelties included refined elasticity measures, analyses of consumer surplus, identification of analytical time periods, invention of the representative firm, and a good many more. The synthesis that Marshall performed was between the work of Smith, Ricardo, and Mill and that of the great marginalists.*

The great organizing principle of that synthesis was ". . . the general theory of the equilibrium of demand and supply," which Marshall valued as a ". . . Fundamental Idea running through the frames of all the various parts of the central problem of distribution and exchange." His analysis of demand was faithful to the great innovations of the 1870's. Book III of the Principles *was a brilliant*

exposition of the principle of diminishing marginal utility. The analysis of supply, on the other hand, rested partly on older classical foundations. Wages still depended upon pain cost. Interest still justified itself by the abstinence—"waiting" was Marshall's word—of the capitalist. Diminishing marginal utility underlay the curve of demand for goods, just as the disutility of labor and waiting underlay the supply curve of those goods. The equilibrium price of goods brought into balance the pains of production and the satisfactions of consumption. A great theoretical triumph of Marshall's analysis was his elegant pursuit of these equilibrium positions in the immediate or market period, the short-run normal period, and the long-run normal period. Marshall was one of the economists who completed the marginalist revolution by applying its principles to the determination of wages, rent, and interest, as well as to the prices of finished goods.

In the English-speaking world Marshall's Principles *held the field for the better part of two generations, an enormous tribute to a text in a rapidly evolving field. As a teacher of John Maynard Keynes, he provided his rebellious student with the technique that he required to make his rebellion significant. It is still possible to teach an intermediate class in economic analysis almost entirely from Marshall's* Principles *and Keynes's* General Theory of Employment, Interest and Money.

In the selection that follows several of Marshall's characteristics appear. There is first the analytical precision with which he examines a difficult question, the use of money to measure the directly immeasurable—the mental states of individuals. There is the final willingness to compromise on what is useful, even if short of ideal. And last, there is Marshall's characteristic yearning to improve the tastes of his fellow citizens and raise the quality of human experience.

The passage is from Principles of Economics, *by Alfred Marshall, 8th ed. (London: Macmillan, 1920), pp. 14-20. Reprinted by permission of Macmillan & Co., Ltd., The Macmillan Company of Canada, Ltd., and The Macmillan Company, New York.*

Money as a Tool of Economics

§1. Economics is a study of men as they live and move and think in the ordinary business of life. But it concerns itself chiefly with those motives which affect, most powerfully and most steadily, man's conduct in the business part of his life. Everyone who is worth anything

carries his higher nature with him into business; and, there as elsewhere, he is influenced by his personal affections, by his conceptions of duty and his reverence for high ideals. And it is true that the best energies of the ablest inventors and organizers of improved methods and appliances are stimulated by a noble emulation more than by any love of wealth for its own sake. But, for all that, the steadiest motive to ordinary business work is the desire for the pay which is the material reward of work. The pay may be on its way to be spent selfishly or unselfishly, for noble or base ends; and here the variety of human nature comes into play. But the motive is supplied by a definite amount of money: and it is this definite and exact money measurement of the steadiest motives in business life, which has enabled economics far to outrun every other branch of the study of man. Just as the chemist's fine balance has made chemistry more exact than most other physical sciences; so this economist's balance, rough and imperfect as it is, has made economics more exact than any other branch of social science. But of course economics cannot be compared with the exact physical sciences: for it deals with the ever changing and subtle forces of human nature.

The advantage which economics has over other branches of social science appears then to arise from the fact that its special field of work gives rather larger opportunities for exact methods than any other branch. It concerns itself chiefly with those desires, aspirations and other affections of human nature, the outward manifestations of which appear as incentives to action in such a form that the force or quantity of the incentives can be estimated and measured with some approach to accuracy; and which therefore are in some degree amenable to treatment by scientific machinery. An opening is made for the methods and the tests of science as soon as the force of a person's motives—*not* the motives themselves—can be approximately measured by the sum of money, which he will just give up in order to secure a desired satisfaction; or again by the sum which is just required to induce him to undergo a certain fatigue.

It is essential to note that the economist does not claim to measure any affection of the mind in itself, or directly; but only indirectly through its effect. No one can compare and measure accurately against one another even his own mental states at different times: and no one can measure the mental states of another at all except indirectly and conjecturally by their effects. Of course various affections belong to man's higher nature and others to his lower, and are thus different in kind. But, even if we confine our attention to mere physical pleasures and pains of the same kind, we find that they can only be com-

pared indirectly by their effects. In fact, even this comparison is necessarily to some extent conjectural, unless they occur to the same person at the same time.

For instance the pleasures which two persons derive from smoking cannot be directly compared: nor can even those which the same person derives from it at different times. But if we find a man in doubt whether to spend a few pence on a cigar, or a cup of tea, or on riding home instead of walking home, then we may follow ordinary usage, and say that he expects from them equal pleasures.

If then we wish to compare even physical gratifications, we must do it not directly, but indirectly by the incentives which they afford to action. If the desires to secure either of two pleasures will induce people in similar circumstances each to do just an hour's extra work, or will induce men in the same rank of life and with the same means each to pay a shilling for it; we then may say that those pleasures are equal for our purposes, because the desires for them are equally strong incentives to action for persons under similar conditions.

Thus measuring a mental state, as men do in ordinary life, by its motor-force or the incentive which it affords to action, no new difficulty is introduced by the fact that some of the motives of which we have to take account belong to man's higher nature, and others to his lower.

For suppose that the person, whom we saw doubting between several little gratifications for himself, had thought after a while of a poor invalid whom he would pass on his way home; and had spent some time in making up his mind whether he would choose a physical gratification for himself, or would do a kindly act and rejoice in another's joy. As his desires turned now towards the one, now the other, there would be change in the quality of his mental states; and the philosopher is bound to study the nature of the change.

But the economist studies mental states rather through their manifestations than in themselves; and if he finds they afford evenly balanced incentives to action, he treats them *primâ facie* as for his purpose equal. He follows indeed in a more patient and thoughtful way, and with greater precautions, what everybody is always doing every day in ordinary life. He does not attempt to weigh the real value of the higher affections of our nature against those of our lower: he does not balance the love for virtue against the desire for agreeable food. He estimates the incentives to action by their effects just in the same way as people do in common life. He follows the course of ordinary conversation, differing from it only in taking more precautions to make clear the limits of his knowledge as he goes. He reaches his

provisional conclusions by observations of men in general under given conditions without attempting to fathom the mental and spiritual characteristics of individuals. But he does not ignore the mental and spiritual side of life. On the contrary, even for the narrower uses of economic studies, it is important to know whether the desires which prevail are such as will help to build up a strong and righteous character. And in the broader uses of those studies, when they are being applied to practical problems, the economist, like every one else, must concern himself with the ultimate aims of man, and take account of differences in real value between gratifications that are equally powerful incentives to action and have therefore equal economic measures. A study of these measures is only the starting-point of economics: but it is the starting-point.*

§2. There are several other limitations of the measurement of motive by money to be discussed. The first of these arises from the ne-

* The objections raised by some philosophers to speaking of two pleasures as equal, under any circumstances, seem to apply only to uses of the phrase other than those with which the economist is concerned. It has however unfortunately happened that the customary uses of economic terms have sometimes suggested the belief that economists are adherents of the philosophical system of Hedonism or of Utilitarianism. For, while they have generally taken for granted that the greatest pleasures are those which come with the endeavour to do one's duty, they have spoken of "pleasures" and "pains" as supplying the motives to all action; and they have thus brought themselves under the censure of those philosophers with whom it is a matter of principle to insist that the desire to do one's duty is a different thing from a desire for the pleasure which, if one happens to think of the matter at all, one may expect from doing it; though perhaps it may be not incorrectly described as a desire for "self-satisfaction" or "the satisfaction of the permanent self." (See for instance T. H. Green, *Prolegomena to Ethics*, pp. 165-6.)

It is clearly not the part of economics to appear to take a side in ethical controversy: and since there is a general agreement that all incentives to action, in so far as they are conscious desires at all, may without impropriety be spoken of shortly as desires for "satisfaction," it may perhaps be well to use this word instead of "pleasure," when occasion arises for referring to the aims of all desires, whether appertaining to man's higher or lower nature. The simple antithesis to satisfaction is "dissatisfaction": but perhaps it may be well to use the shorter and equally colourless word "detriment" in its place.

It may however be noted that some followers of Bentham (though perhaps not Bentham himself) made this large use of "pain and pleasure" serve as a bridge by which to pass from individualistic Hedonism to a complete ethical creed, without recognizing the necessity for the introduction of an independent major premiss; and for such a premiss the necessity would appear to be absolute, although opinions will perhaps always differ as to its form. Some will regard it as the Categorical Imperative; while others

cessity of taking account of the variations in the amount of pleasure, or other satisfaction, represented by the same sum of money to different persons and under different circumstances.

A shilling may measure a greater pleasure (or other satisfaction) at one time than at another even for the same person; because money may be more plentiful with him, or because his sensibility may vary.* And persons whose anticedents are similar, and who are outwardly like one another, are often affected in very different ways by similar events. When, for instance, a band of city school children are sent out for a day's holiday in the country, it is probable that no two of them derive from it enjoyment exactly the same in kind, or equal in intensity. The same surgical operation causes different amounts of pain to different people. Of two parents who are, so far as we can tell, equally affectionate, one will suffer much more than the other from the loss of a favourite son. Some who are not very sensitive generally are yet specially susceptible to particular kinds of pleasure and pain; while differences in nature and education make one man's total capacity for pleasure or pain much greater than another's.

It would therefore not be safe to say that any two men with the same income derive equal benefit from its use; or that they would suffer equal pain from the same diminution of it. Although when a tax of £1 is taken from each of two persons having an income of £300 a-year, each will give up that £1 worth of pleasure (or other satisfaction) which he can most easily part with, i.e. each will give up what is measured to him by just £1; yet the intensities of the satisfaction given up may not be nearly equal.

Nevertheless, if we take averages sufficiently broad to cause the personal peculiarities of individuals to counterbalance one another, the money which people of equal incomes will give to obtain a benefit or avoid an injury is a good measure of the benefit or injury. If there are a thousand persons living in Sheffield, and another thousand in Leeds, each with about £100 a-year, and a tax of £1 is levied on all of them; we may be sure that the loss of pleasure or other injury which the tax will cause in Sheffield is of about equal importance with that which it will cause in Leeds: and anything that increased all the incomes by £1 would give command over equivalent pleasures

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will regard it as a simple belief that, whatever be the origin of our moral instincts, their indications are borne out by a verdict of the experience of mankind to the effect that true happiness is not to be had without self-respect, and that self-respect is to be had only on the condition of endeavouring so to live as to promote the progress of the human race.

* Compare Edgeworth's *Mathematical Psychics.*

and other benefits in the two towns. This probability becomes greater still if all of them are adult males engaged in the same trade; and therefore presumably somewhat similar in sensibility and temperament, in taste and education. Nor is the probability much diminished, if we take the family as our unit, and compare the loss of pleasure that results from diminishing by £1 the income of each of a thousand families with incomes of £100 a-year in the two places.

Next we must take account of the fact that a stronger incentive will be required to induce a person to pay a given price for anything if he is poor than if he is rich. A shilling is the measure of less pleasure, or satisfaction of any kind, to a rich man than to a poor one. A rich man in doubt whether to spend a shilling on a single cigar, is weighing against one another smaller pleasures than a poor man, who is doubting whether to spend a shilling on a supply of tobacco that will last him for a month. The clerk with £100 a-year will walk to business in a much heavier rain than the clerk with £300 a-year; for the cost of a ride by tram or omnibus measures a greater benefit to the poorer man than to the richer. If the poorer man spends the money, he will suffer more from the want of it afterwards than the richer would. The benefit that is measured in the poorer man's mind by the cost is greater than that measured by it in the richer man's mind.

But this source of error also is lessened when we are able to consider the actions and the motives of large groups of people. If we know, for instance, that a bank failure has taken £200,000 from the people of Leeds and £100,000 from those of Sheffield, we may fairly assume that the suffering caused in Leeds has been about twice as great as in Sheffield; unless indeed we have some special reason for believing that the shareholders of the bank in the one town were a richer class than those in the other; or that the loss of employment caused by it pressed in uneven proportions on the working classes in the two towns.

By far the greater number of the events with which economics deals affect in about equal proportions all the different classes of society; so that if the money measures of the happiness caused by two events are equal, it is reasonable and in accordance with common usage to regard the amounts of the happiness in the two cases as equivalent. And, further, as money is likely to be turned to the higher uses of life in about equal proportions, by any two large groups of people taken without special bias from any two parts of the western world, there is even some *primâ facie* probability that equal additions to their material resources will make about equal additions to the fulness of life, and the true progress of the human race.

Lionel Robbins

1898–

Lord Robbins's Nature and Significance of Economic Science (1935) *is a clear contemporary statement by an economic theorist, who is also a distinguished scholar in the history of economic ideas and a vigorous commentator on current economic policy, of the limits of economics as an analytical subject. Lord Robbins begins with a definition of economics that emphasizes the subject's ethical neutrality. The essence of his view appears in this paragraph:*

> *From the point of view of the economist, the conditions of human existence exhibit four fundamental characteristics. The ends are various. The time and the means for achieving these ends are limited and capable of alternative application. At the same time the ends have different importance. Here we are, sentient creatures with bundles of desires and aspirations, with masses of instinctive tendencies all urging us in different ways to action. But the time in which these tendencies can be expressed is limited. The external world does not offer full opportunities for their complete achievement. Life is short. Nature is niggardly. Our fellows have other objectives. Yet we can use our lives for doing different things, our materials and the services of others for achieving different objectives.*

The economist as scientist, then, examines the relationships between economic means and economic ends. He does not select these means or these ends, and he can work with any number of possible relationships. Still in his scientific role, the economist seeks to increase his understanding of the varying effectiveness of different kinds of resources in the attainment of stated goals. As a citizen, as a man of religion, the economist shares with other men the right to express his ethical preferences and to persuade his fellows to accept them. But

he ought not to confuse the two roles. As an economist what he can say of the equilibria produced by competitive markets is entirely technical: ". . . there is no penumbra of approbation round the concept of equilibrium, equilibrium is just equilibrium." He goes beyond the role of scientist, if he then maintains, as Lord Robbins himself has done elsewhere, that free competition is necessarily the best mode of organizing economic life. It depends what values are in mind. It can be demonstrated, under some assumptions, that purely competitive markets are more efficient than any other mode of market organization. But even when the demonstration is accepted, the decision to move in the direction of such markets will depend upon how highly the decider values efficiency and what other values enter his calculations.

This is to say also that Lord Robbins's economics are perfectly usable in any society, socialist, capitalist, or mixed, so long as the conditions of his definition are met. Ends must be numerous. Means must be scant. Men must choose among the ends and economize in the use of the means. This is as true of the socialist economy which Oskar Lange describes in another selection in this volume as it is in the capitalist economy which Lord Robbins himself prefers.

The selection is from Nature and Significance of Economic Science *(London: Macmillan, 1935), pp. 36-9. Reprinted by permission of the author, St. Martin's Press, Inc., New York, and Macmillan & Co., Ltd., London.*

The Nature of Economics

Now, as we have seen already, it is one of the characteristics of the world as we find it that our ends are various and that most of the scarce means at our disposal are capable of alternative application. This applies not only to scarce products. It applies still more to the ultimate factors of production. The various kinds of natural resources and labour can be used for an almost infinite variety of purposes. The disposition to abstain from consumption in the present releases uses of primary factors for more than one kind of roundabout process. And, for this reason, a mere knowledge of existing technique does not enable us to determine the actual "set" of the productive apparatus. We need to know also the ultimate valuations of the producers and consumers connected with it. It is out of the interplay of the given systems of ends on the one side and the material and technical potentialities on the other, that the aspects of behaviour which

the economist studies are determined. Only in a world in which all goods were free goods would technical considerations be the sole determinants of the satisfaction of given ends. But, in such a world, by definition, the economic problem would have ceased to exist.

All this sounds very abstract. But, in fact, it merely states, in terms of a degree of generality appropriate to the very fundamental questions we are examining, facts which are well known to all of us. If we ask the concrete question, why is the production of such a commodity in such and such an area what it is, and not something else, our answer is not couched in terms which, in the first instance, have a technical implication. Our answer runs in terms of prices and costs; and, as every first-year student knows, prices and costs are the reflection of relative valuations, not of merely technical conditions. We all know of commodities which, from the technical point of view, could be produced quite easily.* Yet their production is not at the moment a business proposition. Why is this? Because, given the probable price, the costs involved are too great. And why are costs too great? Because the technique is not sufficiently developed? This is only true in a historical sense. But it does not answer the fundamental question why, *given the technique,* the costs are too high. And the answer to that can only be couched in economic terms. It depends essentially on the price which it is necessary to pay for the factors of production involved compared with the probable price of the product. And that may depend on a variety of considerations. In competitive conditions, it will depend on the valuations placed by consumers on the commodities which the factors are capable of producing. And if the costs are too high, that means that the factors of production can be employed elsewhere producing commodities which are valued more highly. If the supply of any factor is monopolised, then high costs may merely mean that the controllers of the monopoly are pursuing a policy which leads to some of the factors they control being temporarily unemployed. But, in any case, the process of ultimate explanation begins just where the description of the technical conditions leaves off.

But this brings us back—although with new knowledge of its implications—to the proposition from which we started. Economists are not interested in technique as such. They are interested in it solely as one of the influences determining relative scarcity. Conditions of technique "show" themselves in the productivity functions just as conditions of taste "show" themselves in the scales of relative valuations. But there the connection ceases. Economics is a study of the

* The production of motor oils from coal is a very topical case in point.

disposal of scarce commodities. The technial arts of production study the "intrinsic" properties of objects or human beings.

It follows from the argument of the preceding sections that the subject-matter of Economics is essentially a series of relationships—relationships between ends conceived as the possible objectives of conduct, on the one hand, and the technical and social environment on the other. Ends as such do not form part of this subject-matter. Nor does the technical and social environment. It is the relationships between these things and not the things in themselves which are important for the economist.

If this point of view be accepted, a far-reaching elucidation of the nature of Economic History and what is sometimes called Descriptive Economics is possible—an elucidation which renders clear the relationship between these branches of study and theoretical Economics and removes all possible grounds of conflict between them. The nature of Economic Theory is clear. It is the study of the formal implications of these relationships of ends and means on various assumptions concerning the nature of the ultimate data. The nature of Economic History should be no less evident. It is the study of the substantial instances in which these relationships show themselves through time. It is the explanation of the historical manifestations of "scarcity." Economic Theory describes the forms, Economic History the substance.

Thus, in regard to Economic History no more than in regard to Economic Theory can we classify events into groups and say: these are the subject-matter of your branch of knowledge and these are not. The province of Economic History, equally with the province of Economic Theory, cannot be restricted to any part of the stream of events without doing violence to its inner intentions. But no more than any other kind of history does it attempt comprehensive description of this stream of events;* it concentrates upon the description of a certain *aspect* thereof—a changing network of economic relationships,† the effect on values in the economic sense of changes in ends and changes in the technical and social opportunities of realising them.‡ If the Economic Theorist, manipulating his shadowy abacus

* On the impossibility of history of any kind without selective principle see Rickert, *Kulturwissenschaft und Naturwissenschaft*, pp. 28-60.

† Cp. Cunningham: "Economic History is not so much the study of a special class of facts as the study of all the facts from a special point of view" (*Growth of English Industry and Commerce*, vol. i., p. 8).

‡ On the relation between Economic Theory and Economic History, see Heckscher, *A Plea for Theory in Economic History* (*Economic History*, vol. i., pp. 525-35); Clapham, *The Study of Economic History, passim;*

of forms and inevitable relationships, may comfort himself with the reflection that all action may come under its categories, the Economic Historian, freed from subservience to other branches of history, may rest assured that there is no segment of the multicoloured weft of events which may not prove relevant to his investigations.

Mises, *Soziologie und Geschichte* (*Archiv für Sozialwissenschaft und Sozialpolitik*, Bd. 61, pp. 465-512). It may be urged that the above description of the nature of Economic History presents a very idealised picture of what is to be found in the average work on Economic History. And it may be admitted that, in the past, Economic History, equally with Economic Theory, has not always succeeded in purging itself of adventitious elements. In particular it is clear that the influence of the German Historical School was responsible for the intrusion of all sorts of sociological and ethical elements which cannot, by the widest extension of the meaning of words, be described as *Economic* History. It is true too that there has been considerable confusion between Economic History and the economic interpretation of other aspects of history—in the sense of the word "economic" suggested above—and between Economic History and the "Economic Interpretation" of History in the sense of the Materialist Interpretation of History. But I venture to suggest the main stream of Economic History from Fleetwood and Adam Smith down to Professor Clapham bears the interpretation put on it here more consistently than any other.

George Stigler

1911–

Professor Stigler belongs to that economic persuasion in England and the United States which combines an adherence to competition as an organizing principle, maximization as a rule of consumer and producer behavior, and neoclassical price theory as a satisfactory technique with generally nineteenth-century liberal preferences for limited governmental intervention and maximum individual action. That the economics and the politics are separable is demonstrated by Oskar Lange, among others, when he employs neoclassical price theory to allocate resources in a socialist economy.

In the brief passage that follows Professor Stigler advances with characteristic cogency the view that profit maximization is the strongest single guide to the motivation of the entrepreneur and to the comprehension of actual market behavior. Professor Stigler takes implicit cognizance of recent trends of discussion which have frequently made claims for a variety of other motives to business behavior, among them altruism, social conscience, a revised and attenuated version of the Calvinist "stewardship," and a thirst for security. Adolf Berle's argument that businessmen guide their actions by reference to some implicit social consensus represents this line of argument.

The case against it is partly observational. Professor Stigler is convinced that ". . . profit maximization is the strongest, the most universal, and the most persistent of the forces governing entrepreneurial behavior. This is a judgment based upon wide observation of entrepreneurs under innumerable sets of conditions. . . ." Another part of the case rests upon the vagueness and the imprecision of the suggested additions to profit maximization as economic criteria. "The profit-maximizing assumption confers great definiteness on eco-

nomics." If some of the other criteria are employed, ". . . we can no longer predict anything the firm will do." Here Stigler recalls John Stuart Mill's proposition that ". . . only through the principle of competition has political economy any pretension to the character of a science. So far as rents, profits, wages, prices, are determined by competition, laws may be assigned for them." Mill, no doubt, used "laws" more easily than Professor Stigler would, but the intellectual affinity is otherwise close.

There is no question that the precision of economic analysis, often envied by other social scientists, is the result in part of the maximizing assumptions which are here defended. Should they be destroyed, economics would require substantial revision.

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Maximization

In order to predict how firms will behave, we must know what their owners seek. The entrepreneur could have, and historically has had, very diverse goals: to be his own boss, to maintain a customary standard of living, to obtain money and economic power, to obtain political power, etc. In modern economics it is customary to attribute to him one overriding goal: the maximization of profits.

No economist would deny that all entrepreneurs are subject also to other desires that may conflict with profit maximization, nor even that some of these other forces may be widespread and important. Rather, the position is that profit maximization is the strongest, the most universal, and the most persistent of the forces governing entrepreneurial behavior. This is a judgment based upon wide observation of entrepreneurs under innumerable sets of conditions: of the need for profit incentives to obtain maximum output even in war; of the enormous risks and the monotonous toil that are incurred because of the prospect of profits; and especially, from the success of predictions based on this assumption.

Of course this overstates the degree of confidence placed in the assumption by most economists. Some wish to give an important role to "the desire for security," although they have not yet indicated what an entrepreneur wishes to be secure against that requires non-profit-maximizing behavior. Others wish to introduce a goal of "fair profits" which reflect a social consciousness and obligation to the com-

munity (especially under monopolistic conditions), so far without exploring the rubbery concept of fairness. Still others wish to make the entrepreneur the passive bearer of his cultural tradition and seek to explain economic structure in terms of a broader institutional structure.

The reason for not adopting such alternative goals is that unless they are developed in content and their scope of operation and strength are approximately determined, they impoverish rather than enrich economic analysis. If, for example, an undefined and unmeasured "sense of fairness" is put into the theory of the firm, we can no longer predict anything the firm will do. With a rise in wage rates, for example, the firm may restrict output at the ruling price to maximize profits, or it may leave output unchanged to avoid discharging workers, or it may increase output because buyers suffer even more from the wage increase. There is no objection in principle to these alternative goals, but in their present undeveloped state they are seldom useful in general analysis. And I would support the controversial position that persistent patterns of entrepreneurial behavior can usually be explained on profit-maximizing grounds.*

The profit-maximizing assumption confers great definiteness on economics. The variables in a firm's policy that affect profits are usually more or less quantifiable, and the rule of maximum profits is simple: equate marginal cost to price. So long as price exceeds marginal cost of output, expansion of output will increase profits. If the marginal cost exceeds price, a contraction of output will increase profits. This simple rule (which, however, is not always simple to apply) gives specific content to predictions of the behavior of the firm.

* Yet one should beware of the temptation to define profit so broadly that it includes every possible motive.

B. MEASUREMENT

Sir William Petty

1623–1685

The son of a poor clothier, Petty was a self-made man of appalling versatility. He was, among other things, an inventor, linguist, doctor, friend and student of Thomas Hobbes, sailor, professor of music, vice-principal of Brasenose College (Oxford), army doctor, experimental shipbuilder, writer, and political economist. Samuel Pepys praised him as ". . . the most rational man that ever he heard speak with a tongue." In politics, Petty followed Hobbes in his emphasis upon the power of the sovereign, and much of his voluminous economic output was conventionally mercantilist in its confidence in the metals and its insistence upon a favorable balance of trade, high tariff barriers, and the mentality of the garrison state.

But Petty was also an innovator who followed in the footsteps of Francis Bacon, even to the extent of performing a characteristic Baconian experiment. He placed a toad in the middle of a circle of powder made from unicorn's horn (presumably derived from the narwhale) to test the proposition that the powder's charm would confine the toad within the circle. Time after time the toad hopped out. In economics, Petty was a precursor of modern quantitative method, the contemporary science of statistics. The first paragraph of the present selection expresses his wish to ". . . express myself in Terms of Number, Weight, *or* Measure; *to use only Arguments of Sense, and to consider only such* Causes, *as have visible Foundations in Nature." Some of Petty's efforts to apply his own precepts were inevitably flimsy and even whimsical. The method he fathered has not yet completed its evolution.*

Petty was also an ingenious and original student of public finance. His Treatise of Taxes and Contributions *(1662) anticipates by more than a century Adam Smith's discussion of the canons of taxation.*

Combining his interests in public finance and political arithmetic, Petty computed the government outlays that would be saved by reducing the number of parishes and, therefore, the number of clergymen. Rather curiously, he argued that since there were more men than women in England, the clergy might just as well return to celibacy and live on smaller incomes. His conclusion was triumphant:

> *Now if the numberous Officers and Fees relating to the Government, Law, and Church; and if the number of Divines, Lawyers, Physicians, Merchants, and Retailers were all lessened, all which do receive great wages for little work done to the Public, with how much greater ease would common expense be defrayed? and with how much more equality would the same be assessed?*

And—unexpected humanitarian note—Petty proposed to spend the savings on the care of the poor.

The selection is from Political Arithmetick *in Volume I of the* Economic Writings of Sir William Petty, *edited by C. H. Hull (Cambridge, Eng.: Cambridge University Press, 1899), pp. 244-5, 249-60.*

Political Arithmetick

The Method I take to do this, is not yet very usual; for instead of using only comparative and superlative Words, and intellectual Arguments, I have taken the course (as a Specimen of the Political Arithmetick I have long aimed at) to express my self in Terms of *Number, Weight,* or *Measure;* to use only Arguments of Sense, and to consider only such Causes, as have visible Foundations in Nature; leaving those that depend upon the mutable Minds, Opinions, Appetites, and Passions of particular Men, to the Consideration of others: Really professing my self as unable to speak satisfactorily upon those Grounds (if they may be call'd Grounds), as to foretel the cast of a Dye; to play well at Tennis, Billiards, or Bowles, (without long practice,) by virtue of the most elaborate Conceptions that ever have been written *De Projectilibus & Missilibus,* or of the Angles of Incidence and Reflection.

Now the Observations or Positions expressed by *Number, Weight,* and *Measure,* upon which I bottom the ensuing Discourses, are either true, or not apparently false, and which if they are not already true, certain, and evident, yet may be made so by the Sovereign Power,

*Nam id certum est quod certum reddi potest,** and if they are false, not so false as to destroy the Argument they are brought for; but at worst are sufficient as Suppositions to shew the way to that† Knowledge I aim at. And I have withal for the present confined my self to the Ten principal Conclusions hereafter particularly handled, which if they shall be judged material, and worthy of a better Discussion, I hope all ingenious and candid Persons will rectifie the Errors, Defects, and Imperfections, which probably may be found in any of the Positions, upon which these Ratiocinations were grounded. Nor would it misbecome Authority it self, to clear the Truth of those Matters which private Endeavours cannot reach to.

CHAP. I.

That a small Country and few People, by its Situation, Trade, *and* Policy, *may be equivalent in* Wealth *and* Strength, *to a far greater People and Territory: And particularly that conveniences for* Shipping *and* Water-Carriage, *do most Eminently and Fundamentally conduce thereunto.*

This first principal Conclusion by reason of its length, I consider in three Parts; whereof the first is, That a small Country and few People, may be equivalent in Wealth and Strength to a far greater People and Territory.

This part of the first principal Conclusion needs little proof; for as much as one Acre of Land, may bear as much Corn, and feed as many cattle as twenty, by the difference of the Soil; some parcel of Ground is naturally so defensible, as that an Hundred Men being possessed thereof, can resist the Invasion of Five Hundred; and bad Land may be improved and made good; Bog may by draining be made Meadow; Heath-land may (as in *Flanders*) be made to bear Flax and Clover-grass, so as to advance in value from one to an Hundred;‡ The same Land being built upon, may centuple the Rent which it yielded as Pasture; one Man is more nimble, or strong, and more patient of labour than another; one Man by Art may do as much work, as many without it; *viz.* one Man with a Mill can grind as much Corn, as

* "Albeit there appears no certainty of years in the lease, yet if by reference to a certainty it may be made certain it sufficeth, *Quia id certum est quod certum reddi potest.*" Coke upon Littleton, 45 b.

† S, 'the,' altered to 'that' by Petty, R, 'y^t.'

‡ This was a favourite idea of Petty's friend, Hartlib.

twenty can pound in a Mortar; one Printer can make as many Copies, as an Hundred Men can write by hand; one Horse can carry upon Wheels, as much as Five upon their Backs; and in a Boat, or upon Ice, as Twenty:* So that I say again, this first of this general Position, needs little or no proof. But the second and more material part of this Conclusion is, that this difference in Land and People, arises principally from their Situation, Trade, and Policy.

To clear this, I shall compare *Holland* and *Zealand,* with the Kingdom of *France, viz. Holland* and *Zealand* do not contain above one Million of *English* Acres, whereas the Kingdom of *France* contains above 80.

Now the Original and Primitive difference holds proportion as Land to Land, for it is hard to say, that when these places were first planted, whether an Acre in *France* was better than the like quantity in *Holland* and *Zealand;* nor is there any reason to suppose, but that therefore upon the first Plantation, the number of Planters was in Proportion to the quantity of Land; wherefore, if the People† are not in the same proportion as the Land, the same must be attributed to the Situation of the Land, and to the Trade and Policy of the People superstructed thereupon.

The next thing to be shewn is, that *Holland* and *Zealand* at this day, is not only an eightieth part as rich and strong as *France,* but that it hath advanced to one third or thereabouts, which I think will appear upon the Ballance of the following particulars, *viz.*

As to the Wealth of *France,* a certain Map of that Kingdom, set forth *Anno* 1647. represents it to be fifteen Millions, whereof six did belong to the Church, the Author thereof (as I suppose) meaning the Rents of the Lands only: And the Author of a most Judicious discourse of Husbandry (supposed to be Sir *Richard Weston,*‡) doth from reason and experience shew, that Lands in the Netherlands, by bearing Flax, Turneps, Clover-grass, Madden, *&c.* will easily yield 10

* A list of 'Experiments to be made relating to Land-Carriage proposed by the learned Sir William Petty, Kt.,' is in *Philosophical Transactions,* no. 161, 20 July, 1684, vol. XIV, pp. 666-7. These experiments, if performed, would yield data concerning traction similar to those which Petty here assumes.

† S, 'now are,' the 'now' inserted by Petty.

‡ The relations of Weston's *Discourse of Husbandrie used in Brabant and Flanders,* 1652, to Hartlib's *Discourse,* to Hartlib's *Legacy,* and to the *Directions left by a Gentleman to his Sons for the Improvement of barren and heathy Land,* 1670, are much involved. They appear to be all substantially the same book. Cf. *A biographical Memoir of Hartlib with bibliographical Notices of Works published by him.* By H. Dircks (1865), p. 62-87.

l. per Acre; so as the Territories of *Holland* and *Zealand*, should by his account yield at least Ten Millions *per annum*, yet I do not believe the same to be so much, nor *France* so little as abovesaid, but rather, that one bears to the other as about 7, or 8 to 1.

The People of *Amsterdam*, are one third of those in *Paris* or *London*, which two Cities differ not in People a twentieth part from each other, as hath appeared by the Bills of Burials and Christnings for each.* But the value of the Buildings in *Amsterdam*, may well be half that of *Paris*, by reason of the Foundations, Grafts, and Bridges, which in *Amsterdam* are more numerous and chargeable than at *Paris*. Moreover the Habitations of the poorest People in *Holland* and *Zealand* are twice or thrice as good as those of *France;* but the People of the one to the People of the other, being but as thirteen to one, the value of the housing must be as about five to one.

The value of the Shipping of *Europe*, being about two Millions of Tuns, I suppose the *English* have Five Hundred Thousand, the *Dutch* Nine Hundred Thousand, the *French* an Hundred Thousand, the *Hamburgers*, and the Subjects of *Denmark*, *Sweden*, and the Town of *Dansick* two Hundred and Fifty Thousand, and *Spain*, *Portugal*, *Italy*, &c. two Hundred and Fifty Thousand; so as the Shipping in our case of *France* to that of *Holland* and *Zealand*, is about one to nine, which reckoned as great and small, new and old, one with another at 8 † *l. per* Tun, makes the worth to be as Eight Hundred Thousand Pounds, to Seven Millions, and Two Hundred Thousand Pounds. The Hollanders Capital in the *East-India* Company, is worth above Three Millions; where the *French* as yet have little or nothing.

The value of the Goods exported out of *France* into all Parts, are supposed Quadruple to what is sent to *England* alone; and consequently in all about Five Millions,‡ but what is exported out of

* The Paris bills began in 1670 (see note on the subject near the end of Graunt's *Observations, post*) and from that time to 1676 the births in the two cities always differed more than a twentieth, and the burials differed by more than a twentieth each year save in 1672.

† S, '9' altered to '8' by Petty; R, '8.'

‡ This estimate . . . is much less than Fortrey's figures of English imports out of France. . . . The well known "Scheme of the trade at present carried on between England and France," dated 1674, made the total English imports from France £1,136,150 as against total exports to France of only £171,021. Reprinted Somers' *Tracts*, VIII. 30-1, and *Parl. Hist.*, IV. appendix, p. cxvii. When printed in King's *British Merchant*, 29 November, 1674, this estimate was said to have been calculated as exactly as possible, in obedience to the commands of the commissioners for the treaty with France, by sundry London tradesmen. *Merchant*, 1721 ed., vol. I, p. 181. But in vol. II. p. 407 the same figures are said to be taken from a

Holland into *England* is worth Three Millions; and what is exported thence into all the World besides, is sextuple to the same.

The Monies Yearly raised by the King of *France*, as the same appears by the Book intituled (The State of France) Dedicated to the King, Printed *Anno* 1669. and set forth several times by Authority,* is 82000000 of *French* Livers, which is about 6-1/2 Millions of Pounds Sterline, of which summ the Author says, that one fifth part was abated for non-valuers or Insolvencies, so (as I suppose) not above Five Millions were effectually raised: But whereas some say, that the King of *France* raised Eleven Millions as the 1/5 of the effects of *France;* I humbly affirm, that all the Land and Sea Forces, all the Buildings and Entertainments, which we have heard by common Fame, to have been set forth and made in any of these seven last Years, needed not to have cost six Millions Sterling; wherefore, I suppose he hath not raised more, especially since there were one fifth Insolvencies, when the Tax was at that pitch. But *Holland* and *Zealand*, paying 67 of the 100, paid by all the United Provinces, and the City of *Amsterdam* paying 27 of the said 67; It follows that if *Amsterdam* hath paid 4000 *l.* Flemish *per diem*, or about† 1400000 *l. per annum*, or 800000 *l.* Sterline; that all *Holland* and *Zealand* have

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report of Sir George Downing, commissioner of customs, to the Privy Council, dated 9 March, 1675. Whatever their true source, the figures were known at the time when Petty wrote and may have some connection with his estimate of imports at "not above one million two hundred thousand pounds per annum." . . . The *Mercator* alleged that the calculation as printed by the *British Merchant* was disingenuous, the exports being those of 1668, the year after Colbert's great increase of the French duties, while the imports were those of 1674. Taking its figures, apparently, from Davenant's *Report to the Commissioners for Stating the public Accounts* (*Works*, V. 353), the *Mercator* of 26-28 May, 1713 gives its own estimate for 1668-9, imports £541,584, exports £108,699.

* *The present State of France: containing the Orders, Dignities and Charges of that Kingdom. Written in French* [*by Nicolas Besongne*] *and faithfully Englished.* London. 1671. 12°. I can find no English edition of 1669, but *L'état de la France, ou l'on voit tous le Princes, Ducs & Pairs* was printed at Paris by Jean Rinom in 1669. The English *State* says that the taxes and subsidies amount in the whole to 50,359,208 livres. "It is not to be doubted that during the late disorders there were many insolvents, for which reason this Estimat was not of the last year, but of the years before: in the year 1648 his Majesty by his Declaration remitted the fifth part of the said taxes, but since the said declaration has been revoked, and the taxes advanced above a third." P. 457-8. *De l'État present de la France* [par Paul Hay du Chastelet]. À Cologne [?Amsterdam, see Weller, *Falsche und fingirte Druckorte*, II. 25], 1672, was not set forth by authority.

† S, 'about' inserted by Petty, R 'about 1460,000 *p* Ann or above 800 thousand.'

paid 2100000 *l. per annum:* Now the reasons why I think they pay so much, are these, *viz.*

1. The Author of the State of the *Netherlands* saith so.*

2. Excise of Victual at *Amsterdam,* seems above half the Original value of the same, *viz.*

Ground Corn pays 20 Stivers the Bushel, or 63 Gilders the Last; Beer 113 Stivers the Barrel, Housing 1/6 of Rent,† Fruit 1/8 of what it cost; other Commodities 1/7, 1/8, 1/9, 1/12; Salt *ad libitum,* all weighed Goods pay besides the Premisses a vast summ; now if the expence of the People of *Amsterdam* at a medium, and without Excise were 8 *l. per annum,* whereas in *England* 'tis 7 *l.* then if all the several Imposts above named, raise it Five Pound more, there being 160000 Souls in *Amsterdam,* the summ of 800000 *l.* Sterline *per annum* will thereby be raised.

3. Though the expence of each head, should be 13 *l. per annum,* 'tis well known that there be few in *Amsterdam,* who do not earn much more than the said expence.

4. If *Holland* and *Zealand* pay *p. an.* 2100000 *l.* then all the Provinces together, must pay about 3000000 *l.* less than which summ *per annum,* perhaps is not sufficient to have maintained the Naval War with *England,* 72000 Land Forces, besides all other the ordinary Charges of their Government, whereof the Church is there apart:‡ To conclude, it seems from the Premisses, that all *France* doth not raise above thrice as much from the publick *charge,* as *Holland* and *Zealand* alone do.

5. Interest of Money in *France,* is 7 *l. per cent.* but in *Holland* scarce half so much.

6. The Countries of *Holland* and *Zealand;* consisting as it were of Islands guarded with the Sea, Shipping, and Marshes, is defensible at one fourth of the charge, that a plain open Country is, and where the feat of War may be both Winter and Summer; whereas in the others, little§ can be done but in the Summer only.

7. But above all the particulars hitherto considered, that of super-

* "It is commonly reported that in the general contribution of the Provinces toward the War, Holland gives 57 in a 100, and Amsterdam alone gives above 27 of the 57; from whence may be inferred what are the riches of that Town. The revenue of the said City comes to above 4000 pound a day." *The present state of the United Provinces of the Low-countries. . . . Collected by W[illiam] A[lbigony]. The second edition.* London, 1671, p. 360.

† 1691, 'the rent.' . . .

‡ 1691, 'a part.' . . .

§ S, 'nothing,' altered to 'little' by Petty.

lucration ought chiefly to be taken in; for if a Prince have never so many Subjects, and his Country be never so good, yet if either through sloth, or extravagant expences, or Oppression and Injustice, whatever is gained shall be spent as fast as gotten, that State must be accounted poor; wherefore let it be considered, how much or how many times rather, *Holland* and *Zealand* are now above what they were 100 years ago, which we must also do of *France:* Now if *France* hath scarce doubled its Wealth and Power, and that the other have decupled theirs; I shall give the preference to the latter, even although the 9/10 increased by the one, should not exceed the one half gained by the other, because one has a store for Nine Years, the other but for one.

To conclude, upon the whole it seems, that though *France* be in People to *Holland* and *Zealand* as 13 to 1, and in quantity of good Land, as 80 to one, yet it is not 13 times richer and stronger, much less 80 times, nor much above thrice, which was to be proved.

Having thus dispatched the two first Branches of the first Principal conclusion; it follows, to shew that this difference of Improvement in Wealth and Strength, arises from the Situation, Trade, and Policy of the places respectively; and in particular from Conveniences for Shipping and Water Carriage.

Many Writing on this Subject do so magnifie the *Hollanders** as if they were more, and all other Nations less than Men (as to the matters of Trade and Policy) making them Angels, and others Fools, Brutes, and Sots, as to those particulars; whereas I take the Foundation of their achievements to lie originally in the Situation of the Country, whereby they do things inimitable by others, and have advantages whereof others are incapable.

First, The Soil of *Holland* and *Zealand* is low Land, Rich and Fertile; whereby it is able to feed many Men, and so as that Men may live near each other, for their mutual assistance in Trade. I say, that a Thousand Acres, that can feed 1000 Souls, is better than 10000 Acres of no more effect, for the following reasons, *viz.*

1. Suppose some great Fabrick were in Building by a Thousand Men, shall not much more time be spared if they lived all upon a Thousand Acres, then if they were forced to live upon ten times as large a Scope of Land.

2. The charge of the cure of their Souls, and the Ministry would be far greater in one case than in the other; as also of mutual defence in case of Invasion, and even of Thieves and Robbers: Moreover the

* See *Die Nachamung der niederländischen Handelsblüthe* in Roscher, *op. cit.* p. 57.

charge of the administration of Justice would be much easier, where Witnesses and Parties may be easily Summoned, Attendance less expensive, when Mens Actions would be better known, when wrongs and injuries could not be covered, as in thin peopled places they are.

Lastly, those who live in Solitary places, must be their own Soldiers, Divines, Physicians, and Lawyers; and must have their Houses stored with necessary Provisions (like a Ship going upon a long Voyage,) to the great wast, and needless expence of such Provisions. The value of this first convenience to the *Dutch,* I reckon or estimat* to be about 100000 *l. per annum.*

2ly. *Holland* is a Level Country, so as in any part thereof, a Windmill may be set up, and by its being moist and vaporous, there is always wind stirring over it, by which advantage the labour of many thousand Hands is saved, forasmuch as a Mill made by one Man in half a year, will do as much Labor, as four Men for Five Years together. This advantage is greater or less, where employment or ease of Labour is so; but in *Holland* 'tis eminently great, and the worth of this conveniency is near an Hundred and Fifty Thousand Pounds.

3ly. There is much more to be gained by Manufacture than Husbandry, and by Merchandize than Manufacture; but *Holland* and *Zealand,* being seated at the mouths of three long great Rivers, and passing through Rich Countries, do keep all the Inhabitants upon the sides of those Rivers but as Husbandmen, whilst themselves are the Manufactors of their Commodities, and do dispence them into all Parts of the World, making returns for the same, at what prices almost they please themselves; and in short, they keep the Keys of Trade of those Countries, through which the said Rivers pass; the value of this third conveniency, I suppose to be† 200000 *l.*

4ly. In *Holland* and *Zealand,* there is scarce any place of work, or business one Mile distant from a Navigable Water, and the charge of Water carriage is generally but 1/15 or 1/20 part of Land carriage; Wherefore if there be as much Trade there as in *France,* then the *Hollanders* can out-sell the *French* 14/15 of all the expence, of all Travelling Postage and carriage whatsoever, which even in *England* I take to be 300000 *l. p. an.* where the very Postage of Letters, costs the People perhaps 50000 *l. per annum,* though Farmed at much less, and all other Labour of Horses, and Porters, at least six times as much; The value of this conveniency I estimate to be above Three Hundred Thousand pounds *per annum.*

5. The defensibleness of the Country, by reason of its Situation in

* S, 'or estimat' inserted by Petty, not in R.

† S, R, 'is,' S altered to 'I suppose to be' by Petty.

the Sea upon Islands,† and in the Marshes, Impassible ground Diked and Trenched, especially considering how that place is aimed at for its Wealth; I say the charge of defending that Country, is easier than if it were a plain Champion, at least 200000 *l. per annum.*

6. *Holland* is so considerable for keeping Ships in Harbour with small expence of Men, and ground Tackle, that it saves *per annum* 200000 *l.* of what must be spent in *France.* Now if all these natural advantages do amount to above one Million *per annum* Profits, and that the Trade of all *Europe,* nay of the whole World, with which our *Europeans* do Trade, is not above 45 Millions *p. an.* and if 1/50 of the value be 1/7 of the Profit, it is plain that the *Hollander* may Command and Govern the whole Trade.

7. Those who have their Situation thus towards the Sea, and abound with Fish at home, and having also the command of Shipping, have by consequence the Fishing Trade, whereof that of Herring alone, brings more yearly Profit to the *Hollanders* than the Trade of the *West-Indies* to *Spain,* or of the *East* to themselves, as many have affirmed, being as the same say* *viis & modis* of above three Millions *per annum* Profit.

8. It is not to be doubted, but those who have the Trade of Shipping and Fishing,† will secure themselves of the Trade of Timber for Ships, Boats, Masts, and Cask; of Hemp for Cordage, Sails, and Nets; of Salt, of Iron; as also of Pitch, Tar, Rosin, Brimstone, Oil, and Tallow, as necessary Appurtenances to Shipping and Fishing.

9. Those who predominate in Shipping, and Fishing, have more occasions than others to frequent all parts of the World, and to observe what is wanting or redundant every where, and what each People can do, and what they desire, and consequently to be the Factors, and Carriers for the whole World of Trade. Upon which ground they bring all Native Commodities to be Manufactured at home, and carry the same back, even to that Country in which they grew, all which we see.

* S, 'made by ye sea & Trenches' was inserted by Petty and then stricken out, not in R.

† S, R, 'themselves, being as some say,' S altered to 'themselves as many have affirmed, being as the same say' by Petty.

‡ See John Keymour's *Observations made upon the Dutch Fishing, about the year* 1601, *demonstrating that there is more Wealth raised out of the Herrings and other Fish in his Majesty's Seas, by the neighbouring Nations in one Year than the King of Spain hath from the Indies in four,* London, 1664, 4°. Also Sir John Burroughs, *The Sovereignty of the British Seas,* London, 1651, 12°, p. 115; Evelyn, *Navigation and Commerce* in McCulloch's *Select Collection of Tracts on Commerce,* 95, and note 4, p. 242.

For, do they not work the Sugars of the *West-Indies*? The Timber and Iron of the *Baltick*? The Hemp of *Russia*? The Lead, Tin, and Wooll of *England*? The Quick-silver and Silk of *Italy*? The Yarns, and Dying Stuffs of *Turkey*, &c. To be short, in all the ancient States, and Empires, those who had the Shipping, had the Wealth, and if 2 *per Cent.* in the price of Commodities, be perhaps 20 *per Cent.* in the gain: it is manifest that they who can in forty five Millions, undersel others by one Million, (upon accompt of natural,* and intrinsick advantages only) may easily have the Trade of the World without such Angelical Wits and Judgments, as some attribute to the *Hollanders.*

Having thus done with their Situation, I come now to their Trade.

It is commonly seen, that each Country flourisheth in the Manufacture of its own Native Commodities, *viz. England* for woollen Manufacture, *France* for Paper, *Luic-land*† for Iron Ware, *Portugal* for Confectures, *Italy* for Silks; upon which Principle it follows, that *Holland* and *Zealand* must flourish most in the Trade of Shipping, and so become Carriers and Factors of the whole World of Trade. Now the advantages of the Shipping Trade are as followeth, *viz.*

Husbandmen, Seamen, Soldiers, Artizans‡ and Merchants, are the very Pillars of any Common-Wealth;§ all the other great Professions, do rise out of the infirmities, and miscarriages of these; now the Seaman is three of these four. For every Seaman of industry and ingenuity, is not only a Navigator, but a Merchant, and also a Soldier; not because he hath often occasion to fight, and handle Arms; but because he is familiarized with hardship and hazards, extending to Life and Limbs; for Training and Drilling is a small part of Soldiery, in respect of this last mentioned Qualification; the one being quickly and presently learned, the other not without many years most painful experience: wherefore to have the occasion of abounding in Seamen, is a vast conveniency.

2. The Husbandman of *England* earns but about 4 *s. per* Week, but the Seamen have as good as 12 *s.* in Wages, Victuals (and as it were housing) with other accommodations, so as a Seaman is in effect three Husbandmen; wherefore there is little Ploughing, and Sowing of Corn in *Holland* and *Zealand*, or breeding of young Cattle: but their Land is improved by building Houses, Ships, Engines,

* S, R, 'mutual interest and,' S altered to 'natural and' by Petty.

† Luikland or Luykerland, i.e. Liege.

‡ S, 'Artizans' inserted by Petty, not in R. Petty neglected to make a corresponding alteration in 'three of these four,' three lines further down.

§ Cf. P. de la Court, *Aanwysing* (1669), Engl. transl., p. 111.

Dikes, Wharfs, Gardens of pleasure, extraordinary Flowers and Fruits; for Dairy and feeding of Cattle, for Rape, Flax, Madder, *&c.* The Foundations of several advantageous Manufactures.

3. Whereas the Employment of other Men is confined to their own Country, that of Seamen is free to the whole World; so as where Trade may (as they call it) be dead here or there,* now and then, it is certain that some where or other in the World, Trade is always quick enough, and Provisions are always plentiful, the benefit whereof, those who command the Shipping enjoy, and they only.

4. The great and ultimate effect of Trade is not Wealth at large, but particularly abundance of Silver, Gold, and Jewels, which are not perishable, nor so mutable as other Commodities,† but are Wealth at all times, and all places: Whereas abundance of Wine, Corn, Fowls, Flesh, *&c.* are Riches but *hic & nunc*, so as the raising of such Commodities, and the following of such Trade, which does store the Country with Gold, Silver, Jewels, *&c.* is profitable before others. But the Labour of Seamen, and Freight of Ships, is always of the nature of an Exported Commodity, the overplus whereof, above what is Imported, brings home money, *&c.*

* S omits 'or there,' R has it.

† S, 'nor so mutable as other Commodities' inserted by Petty.

Sir Fredric Morton Eden

1766–1809

Some of the hardest historical questions to answer are the most mundane. What was the annual income of an English laborer? How did he spend that income? What can be concluded about the condition of life in which he found himself? When questions of this variety are asked it says something about the society that asks them and even more about the society that does not, for one asks Eden's questions about the state of the poor only when the poor begin to matter to their betters. If the social conscience of the educated dictates the time the questions are asked, it is technique which determines the character of the answer. The modern technique of measurement rests upon the collection of family budgets according to scientific sampling procedures and the computation of an index number weighted according to the importance of various expenditures by the families studied. The famous Consumer Price Index, which the Bureau of Labor Statistics calculates monthly, is an argument in collective bargaining negotiations and a staple of editorial warnings against inflation.

Of index numbers Eden knew nothing. But his three-volume study of life at the end of the eighteenth century is the principal source of information about incomes and expenditures, for while Eden could prepare no index numbers, he was perfectly capable of examining the household budgets of a great many families and of pursuing his investigations into the gloomy refuges of the poor, the Houses of Industry. A sample of the second category of investigation is offered below.

How poor were most Englishmen in 1797? Even observant writers like Daniel Defoe at the beginning of the eighteenth century and Arthur Young at the end of the century tended to point with a mix-

ture of alarm and complacency at the higher wages that Englishmen received in comparison to Frenchmen and other Europeans. The alarm proceeded from standard mercantilists' assumptions about foreign sales and gold inflows and the complacency derived from this additional testimony of the better life of the Englishman. Better off than the French the English laborer may well have been. But affluent he was not. Eden's budgets of agricultural workers suggest a weekly range from 7s 6d to 10s. An exceptionally fully employed family night earn as much as £50 in a year but most families earned no more than £24–£35 annually. Of this exiguous budget, food took the largest part, fuel was an important expense, and clothing was either made at home or derived from the gifts of employers. Meat and milk were infrequent articles of diet and recreation was little known. In their analysis of Eden's budgets in The Common People, *Cole and Postgate assumed that well over half of the amount spent went to purchase cereals. The figure illuminates the practice of classical economists like Ricardo and Malthus who used the price of corn as a single indicator of the prosperity of the laboring classes.*

Life was hard enough for the employed laborer. What it was for the unfortunate inmates of Houses of Industry Eden's description both of diet and mortality figures suggests. Eden's figures of course have many limitations. Although his data are numerous, we cannot be certain that they are representative. Nor does he examine the condition of the urban poor to which the principal later statistical measure of the cost of living, Silberling's Index, applies. Nevertheless, Eden deserves an honorable place not only in the history of those who interested themselves in the condition of the poor, but also in the growth of quantitative methods of investigation.

The present selection is taken from the book The State of the Poor, *by Sir Fredric Morton Eden, abridged by A. G. L. Rogers, pp. 252-8. Published by E. P. Dutton & Co., Inc., and reprinted with their permission.*

Heckingham

The House of Industry here was erected in 1767. The original sum borrowed was £7,500. The annual assessments to be paid by the 41 incorporated parishes in the Hundreds of Loddon and Clavering were fixed at the average expenditure of the 7 years immediately preceding their incorporation. In 1786 the whole debt was paid off, and the rates reduced from £2,132 to £1,986, and afterwards to £1,866. The

high price of provisions, the lowness of wages for spinning and the late severe seasons, have so much increased the number of the necessitous that it has been found necessary to raise the rates to the original figure. The following table deals with the earnings and expenditure in the house:

Year	No. of inmates	Earnings £	*s.*	*d.*	Expenditure £	*s.*	*d.*
1789	199	219	7	10	2,230	11	8
1790	233	256	13	9-3/4	2,324	10	5
1791	245	305	2	8-1/2	2,223	11	11
1792	224	302	4	5	2,047	2	6
1793	214	234	0	10	2,094	10	8-1/2
1794	239	189	16	1-1/2	2,261	4	11

The bill of fare is as follows: Breakfast—Sunday, Monday, Wednesday, Friday, bread and cheese and butter or treacle; other days, milk and water gruel and bread. Dinner—Sunday, Thursday, dumplins, butcher's meat and bread; Monday, Friday, broth and bread; Tuesday, baked suet puddings; Wednesday, dumplins and milk broth, or milk and water gruel; Saturday, bread and cheese or butter. Supper —every day, bread and cheese or butter. The men are allowed a pint of beer each at every meal except when they have broth or gruel. Women with children at the breast have the same allowance, others have two-thirds of a pint. The Poor here are not subject to any peculiar disorder, though a very fatal putrid fever is now raging in the neighbourhood. Mr. Howlett informs us that in 1774, 126 inmates died out of 220, and that before 1788 the average annual deaths of children in the house was about 1 in 8. In 1791 representations were made to the directors and guardians that the weekly charges for provisions for the last three years were very high compared with those for former years, without sufficient apparent reason. A committee was appointed to examine the expenditure, and from their report published in 1793, it appears that the books of the house had been kept in a very vague and loose manner. No entries had been made of clothes delivered to the different paupers, and that the amount of provisions delivered each week was ascertained by taking stock every Sunday night, and charging the deficit as weekly expenditure. The Committee recommended the directors to dismiss the governor as a person perfectly incompetent to fulfil the duties of his office. The resolution was not adopted, but the governor resigned at Michaelmas, 1792, because he "too well knew the inveterate prejudices which some few entertained against him, to expect any peace

or happiness from a continuance in his present situation." Not much information can be derived from the report as several of the facts were disputed by the opposite party, but some idea of the weekly charges may be formed from the following extracts for certain weeks in 1790: 1, Number of inmates, 246. Meal, 91st. at 1*s* 6*d*.; flour, 26st. at 2*s*.; beef, 21st. at 4*s*. 1-1/2*d*.; pork, 6st. 7 lbs. at 4*s*.; cheese, 23st. 7 lbs. at 2*s*.; total cost, £22 18*s*. 10-1/4*d*. 2, Inmates 243. Meal, 86st.; flour, 25st.; meat, 27st. at 4*s*.; cheese, 22st. 7 lbs.; total cost, £22 5*s*. 2-1/2*d*. 3, Inmates, 253. Meal, 81st.; flour, 25st. at 2*s*. 1-3/4*d*.; meat, 28st.; cheese, 22st.; total cost, £21 19*s*. 10-1/2*d*. 4, Inmates 258. Meal, 84st.; flour, 25st.; beef, 28st. 7 lbs. at 4*s*.; pork, 1st. at 4*s*; cheese, 24st.; total cost, £22 17*s*. 8*d*.

Norwich

This city, containing 32 parishes and 3 or 4 hamlets, is incorporated for the maintenance of its Poor. The population is estimated at 40,000. The number of houses paying tax is 2,200, number exempt not ascertained. Alehouses, 370. Rent of land near the town is £5, but farms in general are let at £1 an acre. Trade in Norwich has for some years been in a declining state, due to the prevalent taste for wearing cottons instead of stuffs which is the staple trade of Norwich; the low wages of the weavers and spinners who are in a considerable degree at the mercy of the manufacturers, and are not supposed to receive more in pay than they did 20 years ago; and to the war, which has stopped trade with France, Flanders, and Holland, and restricted it with other countries from the high rate of insurance. When business was brisk, an industrious weaver might earn £1 1*s*. a week from fine work, and 12*s*. from coarser work. The average now is thought to be not more than 7*s*. or 8*s*. Women weavers earn 5*s*. to 6*s*. a week, but females are principally employed in spinning, reeling, winding, etc., at which they earn from 2*s*. to 4*s*. a week. Children earn about 2*s*. a week. Women's and children's wages have of late years been very low, but for the last month has been rather brisk from a notion that peace is not very distant. Prices of provisions are: Beef, 5-1/2*d*. per lb.; mutton, 5*d*. to 6*d*.; veal, 4*d*. to 5*d*.; pork, from 7*d* to 8*d*; bacon, 10*d*.; milk, 3/4*d*. per pint; eggs, two a penny. The Poor are maintained principally in two large Workhouses, one formerly a palace of the Duke of Norfolk, and the other a monastery. It is not surprising, therefore, that they should be in many respects extremely unfit for the purpose to which they are now applied. The

latter, more especially, is dark and confined, and from the great number of paupers in it (about 700) exhibits rather an uncleanly appearance. There are about 40 beds, generally of straw, in each room. The Poor receive their food in a room downstairs, and eat their dinner and supper in their bedrooms. They are chiefly women and children, and are employed in schools, in spinning worsted. The mortality has been considerably lessened by several improvements made in 1783 for ventilating the rooms, removing nuisances, and newly arranging the offices. About the same period, at the suggestion of Mr. Rigby, a guardian, a special provision committee, was appointed which introduced several reforms in the diet of the Poor, not without considerable clamour on their part, who were persuaded that no economy could be effected without making their allowances less ample, less wholesome, or less palatable than before: 1, It was found that bakers' bread was infinitely superior to Workhouse bread, which, the report said, seemed to be made principally of bran, and to be much too ordinary for common food, though bakers' bread was much cheaper; 2, It was found that an allowance of 4 oz. butter to each person instead of 12 oz. cheese, would lead to an annual saving of £306; cheese was discontinued, and the weekly shares of butter increased to 4 oz.; 3, Great abuses were found to exist in the allotment of beef, flour and beer. In Jan., 1774, 1,478 paupers consumed 496st. beef, 9,370 quartern loaves of bread, 552st. flour, and 128 barrels of beer; cost, £532 10*s.* 8*d.* In Jan., 1784, 1,231 paupers consumed 466-1/2st. beef, 9,250 quartern loaves of bread, 580st. flour, 135 barrels of beer; cost, £548 18*s.* 11-1/4*d.* To correct this, the guardians ordered that the quantity of provisions for one week for 692 persons, the number then in the new Workhouse, should be as follows, to be increased or diminished according to the number in the house: Bread, 1,917 coarse loaves, 213 fine loaves (total 2,130); flour, 67st.; oatmeal, 10-1/2 pecks; beer, 15 barrels; beef, 60st. 4, In April, 1784, 486 dumplins, weighing 13 oz. each, were served three times a week to 677 persons. The expense was: 19st. flour at 1*s.* 9-1/2*d.* = £1 4*s.* 2-1/2*d.*; 3 galls. yeast at 1*s.* = 3*s.*; 1 lb. salt, 2*d.*; 3 persons' time who make them and have a dumplin extra, 1*s.* 6*d.*; total, £1 18*s.* 10-1/2*d.* It was found that by buying dough from a baker, dumplins of 13-1/2 oz. each would cost £1 13*s.* 5*d.* less for 486 than the Workhouse dumplins, giving the Poor a dumplin 1/2 oz. heavier, and effecting a yearly saving of £42 11*s.* 6*d.* 5, The manner in which the food was served was a source of great waste, and the total quantity distributed much exceeded what was eaten by persons in perfect health. Thus on Sunday, April 11, 1784, 77 persons had 10 oz. beef each, 26 had

11 oz., 42 had 12, and 26 had 8. Total, 1,768 oz. On the assumption that 8 oz. meat cooked and without bone equals 14 oz. uncooked, and with bone this amount of 1,768 oz. is equivalent to 18 oz. per head of uncooked butcher's meat, which at 4*d.* per lb. comes to 4-1/2*d.* for each person, and with bread, beer and the expense of cooking, comes to 6*d.* per person. Similarly the amount served on Tuesday, April 13, 1784, turned out to be 18-3/4 oz. per head, and the cost at least 6*d.* per person. On Thursday, April 22, 1784, the amount proved to be 19-1/2 oz. per head, which with bread, etc., as before, may be estimated at almost 7*d.* for each person's meal. In the old Workhouse the amount served to each person must have been, according to the calculation made, at least 1-3/4 lbs., which at 4*d.* per lb. comes to 7*d.* each, and with bread, beer, and expenses of cooking, to have cost 9*d.* per person. From the above account, it is evident that the dinners of the above number of persons three times a week cost more than if the Poor were to dine at a cook's shop or a public house, and it is well known that many respectable artificers dine at such places for less money and that the quantity for each person exceeds considerably the proportions of what is usually eaten at the tables of most private families. The extravagance of this will be further proved by observing that these three meals cost more than 21 meals in several Houses of Industry in this county do. To prevent this waste the committee proposed that the Poor should all dine together in two large rooms in the Workhouse, by which they would be more equally fed, the general consumption of food considerably lessened, the practice of selling provisions stopped, and instead of the custom of eating upon the beds (which was a source of dirt), the whole number of paupers would be collected together, once a day, in a decent and orderly manner, and the real number in the house more easily ascertained. The plan of making the Poor dine together was not adopted, but an alteration was made in the meat dinners, from which it appears that the Sunday dinner for 171 persons was 1,768 oz. boiled beef without bone, and cost £2 15*s.* A soup was substituted, made of 70 lbs. cheeks at 2*s.* the stone, 43 galls. water, 2 pecks old pease at 1*s.*, 4-1/2 lb. onions at 1*d.*, 4-3/4 pints oatmeal at 1-1/2*d.*, 3-3/4 oz. pepper at 1-1/2*d.*, 5 crusts of loaves burnt, 1-3/4*d.*, 1-3/4 lbs. salt 2*d.*, thyme 1*d.* Total cost, 13*s.* 9-3/4*d.* 6, It was stated that the beer brewed in the Workhouse cost 7*s.* 3*d.* a barrel, and brewers' beer 5*s.* This was found to be as good, and was adopted, affecting a saving of £210 12*s.* a year. The savings resulting from these reforms came to £5,954 in three years. Notwithstanding these savings, the expenses for the Poor have considerably increased, probably due to the war

and other causes, which have caused a great stagnation of trade in Norwich. Thus the relief to the Out-Poor in 1784 cost £2,318 10*s.* 11*d.*, and in 1794 £7,32 7 9*s.* 11*d.*, but although the number of inmates rose from 1,301 in 1784 to 1,406 in 1794, the cost of their clothing and maintenance fell from £10,204 13*s.* to £9,240 9*s.* 2*d.*, notwithstanding the high price of every article of subsistence.

There are about 40 friendly societies in Norwich, most of which have taken the benefit of the late Act. The number of members is from 18 to 30 and 40. They are not much encouraged by honorary members. One society, established in 1775 and known as the Scots Society, is for the purpose of relieving poor Scotchmen. The motive is to supply an omission in the English law, respecting which it is said that "a stranger coming into England and not having obtained a proper parish settlement, is not entitled to parish relief; that nobody is obliged to relieve him, but that they might let him starve" (Burn's Justice, Title Settlements). In 1778 it was agreed that the charity of the society should be extended to all subjects of Great Britain and the natives of foreign countries residing in England, when in distress; and in 1784 the society took the additional name of "The Society of Universal Goodwill." From an account published in 1784 it appears that the following persons had been relieved since 1778: Natives of Scotland, 111; Ireland, 29; France, 1; America, 14; Germany, 5; Italy, 8; Turkey, 3; Prussia, 2; Barbary, 2; Norway, 1; Hungary, 1; Sweden, 1; Jewesses, 2. Persons who could give no positive account to what parishes they belonged, 4. Wives and children of the above and single women, 172. Total, 356. Since 1784 many other persons have been relieved.

Frederick Cecil Mills

1882–

Rexford Tugwell's The Trend of Economics (1924) *was conceived as a young man's manifesto. While not all the contributors fitted any but a very elastic definition of youth, most of them were in their thirties and, unlike their older colleagues, educated in most cases in American colleges and graduate schools. In his volume, Professor Tugwell included tendencies of different kinds and economists of varied persuasion. Frank Knight, a student of the Austrian economists, and John Maurice Clark, the son and follower of John Bates Clark, were included. But what gave the volume its tone and reputation was the presence of a number of economists who might be termed institutionalist in their approach to economic understanding and skeptical in their evaluation of conventional economic analysis. Among them were Morris Copeland, Wesley Clair Mitchell, Tugwell himself, George Soule, and Frederick Mills. The roster was distinguished and those who had not already established their scholarly reputations soon proceeded to do so.*

When he wrote this essay Professor Mills was at the beginning of an association with Columbia University which lasted over thirty-five years. As a member of the research staff of the National Bureau of Economic Research he contributed over the years a most valuable series of technical studies which ranged over prices, business cycles, and production. For many years his textbook in statistics has been widely used in colleges and graduate schools.

In this passage, Mills stated the case for statistical measurement with a characteristic blend of courtesy, firmness, and precision. Although he was not primarily engaged in attacking conventional economic theory and indeed took some pains to quote in favorable contexts leading economic analysts, he was convinced that neglect of

measurement entailed serious loss to economics. As he put it in a part of this essay which is not here reprinted:

> *The failure consciously to acknowledge the statistical nature of many of the central problems of economics tends to take the edge from the tools of economic research. When economists speak of "tendencies," and qualify their statements by "other things being equal" they are dealing fundamentally with statistical factors. Failing to employ appropriate instruments, their statements tend to be loose and ambiguous, their conclusions to lack precision and their "laws" to lack authority. Methods of research and methods of stating and applying conclusions in economics should be adapted to the data being handled. These data are masses of events related not in terms of certainty but of contingency; our knowledge of these events is knowledge in terms of aggregates and averages. Methods appropriate to these conditions must be employed.*

As the educational psychologist William Heard Kirkpatrick put it, everything that exists, exists in some quantity.

It is always dangerous to trace an intellectual change to a single cause. Hence the conclusion that this book transformed economics into a more realistic discipline is surely overstatement. Nevertheless, its major contributors have contributed vigorously to the stream of quantitative measurement which has had the effect of producing an unequaled statistical picture of the United States. If American statistics are better than those of any other country, it is in substantial part the result of the work of Mills and his associates. A single example will suffice to show the relevance to policy and theory of statistical measurement. The Keynesian revolution in economic analysis concentrated the attention of economists on a new set of variables, aggregative measures like consumption, saving, investment, and national income. Now one of the attractions of these new aggregates was their measurability and one of the necessities of their measurement was the desire to influence by public policy the size of these aggregates. The impact of Keynesian economics was the greater and the opportunities to amend and develop its formulations the more substantial because the National Bureau of Economic Research had fostered pioneer researches in national income by King and Kuznets.

This selection comes from "On Measurement in Economics," by Frederick C. Mills, in The Trend of Economics, *edited by R. G. Tugwell. Reprinted by permission of the publishers, Appleton-Century-Crofts, Inc.*

On Measurement in Economics

1. INTRODUCTION

The present has been termed "the inductive era" in economics. Whether the phrase be strictly justified is perhaps a matter for question, but certainly the emphasis on the factual aspect of economic study is every year more pronounced. For the economist of today facts constitute not only the ultimate test of theory but, probably to a greater conscious extent than formerly, facts constitute the raw material from which theories are to be cast.

This study of specific facts has been accompanied by an increased use of quantitative methods. The modern economist enumerates, measures, weighs. He seeks that accuracy and precision in dealing with facts, that power of exact description, which the ability to measure conveys. "When you cannot measure what you are speaking about, when you cannot express it in numbers," said Lord Kelvin, "your knowledge is of a meager and unsatisfactory kind; it may be the beginning of knowledge, but you have scarcely in your thoughts advanced to the stage of a *science*, whatever the matter may be." The attempt to measure has been made in almost every field of economic interest. Precise methods have been developed for measuring changes in the general level of prices. By means of index numbers of various types changes in such varied and complicated phenomena as wage levels, the volume of production, the volume of trade, stock prices, and the cost of living are expressed in quantitative terms. These diverse applications have fully demonstrated the fruitfulness of quantitative methods, both for the testing of hypotheses and for the inductive derivation of new generalizations. The future development of economics as an effective instrument of social control will undoubtedly be conditioned largely by the use made of these tools.

The extensive employment of quantitative methods in economics, involving as it does the application to economic data of tools developed in other fields for other purposes, calls for some consideration of the logical assumptions involved in the use of these methods, the validity of applying them to the data of economics, and the precise significance of the results secured. The present paper is concerned with certain logical problems arising from the application of these methods in economic research, with particular reference to the nature of our knowledge of economic events, the nature and significance of economic generalizations, or "laws," and the possibility of

deriving such laws by processes of quantitative induction. This may be considered as merely a preliminary discussion of many of the points raised. The main purpose in mind is to call attention to the practical importance of certain problems which must be faced if economics is to secure a sound quantitative foundation.

2. THE STATISTICAL CHARACTER OF USEFUL KNOWLEDGE

No discussion of method is significant unless it proceed from a consideration of the nature of the matter to be manipulated. As a mechanic chooses a tool adapted to his material, so the economist must adapt his methods to his data. What are, then, the data of economics? What is the character of the materials of economics, and what is the nature of our knowledge of them? If we can answer these questions, we shall be in a position to consider the instruments of measurement which may be employed.

Clerk Maxwell, the physicist, has set up a classification of scientific knowledge and of scientific method, a classification elaborated by Josiah Royce, which has particular significance for the economist. The division, essentially as explained by Royce,* is as follows:

All scientific knowledge may be catalogued as *historical, mechanical or statistical.* That knowledge is *historical* which has as object the individual event—a solar eclipse, a sunrise, a single physical fact, or any single act of an individual. The *historical method* is one which concerns itself with single events, which studies individual organisms, the history of individual organisms, or the sequences of individual events. That knowledge is *mechanical* which deals with "the invariant laws to which all individual events of some field of inquiry are subject." The *mechanical method* concerns itself with such unchanging laws, and with individual events which are completely predictable from knowledge of such laws. *Statistical* knowledge is that having as object "not the single event and not the invariant law, but . . . the relatively uniform behavior of some average constitution, belonging to an aggregate of things and events, and the probability that this average behavior will remain, within limits, approximately, although always imperfectly uniform." The *statistical method* is that which deals with assemblages or groups in terms of the averages by which they may be described, and which deals with relations which are not described by unchanging laws but by generalizations couched in terms of approximation and of probability.

* "The Mechanical, the Historical and the Statistical," *Science,* N. S. xxxix, No. 1007, April 17th, 1914.

Our knowledge of nature is of which of these types? To this fundamental question both Clerk Maxwell and Royce give an unequivocal answer.

"Our actual knowledge of concrete things," writes the former, "is of an essentially statistical nature." We cannot, from the very nature of the case, trace the path of a molecule, or identify it at different times. "Hence those uniformities which we observe in our experiments with quantities of matter containing millions of molecules are uniformities . . . arising from the lumping together of multitudes of cases, each of which is by no means uniform with the others."* If knowledge of individual things and events is impossible when dealing with fundamental material units, invariant mechanical laws obviously cannot be applied to them. Purely mechanical as well as purely historical knowledge is, therefore, in practice, unobtainable. "The scientific view of nature is thus . . . neither purely historical nor purely mechanical, it is statistical." As a proof of the practical validity of this view Clerk Maxwell developed the atomic theory of gases, a theory derived from the logic of probabilities as applied to the velocities and the collisions of millions of hypothetical molecules.†

Josiah Royce goes even farther than Clerk Maxwell in stressing the dominant importance of the statistical view of nature. The three fundamental conceptions of this view (that of an average, that of approximation, and that of probability), he says, "are indeed not the only fundamental categories of our thought, but they are conceptions which go down to the very roots of our intelligence as well as of our voluntary activity. . . . They . . . go down to the roots of that nature of things which our sciences are studying."‡ "Not the mechanical but the statistical form," he concludes, "is the canonical form of scientific theory."

The implications of this view are far-reaching. It means that, practically, knowledge of individual things and events in nature is impossible, that we must perforce deal with averages, and with "the total effects produced by an immensely large number of singly imperceptible events." Whether we are concerned with matter and the physical problems relating thereto or with social and economic events,

* Campbell and Garnett; *Life of Clerk Maxwell,* quoted by Merz, *History of European Thought in the Nineteenth Century,* II, 600-1.

† "The distribution of the molecules according to their velocities is found to be of exactly the same mathematical form as the distribution of observations according to the magnitude of their errors, as described in the theory of errors of observation." Clerk Maxwell, *Theory of Heat;* quoted by Royce, *loc. cit.* 560.

‡ *Loc. cit.,* 559.

the coarseness of our senses and the limitations of our intelligence prevent us from perceiving and dealing with individual things or occurrences. We deal with composites, aggregates, groups. We do so, moreover, not only because precise knowledge of individual units is impossible, but also because it is not the individual but the aggregate of things or events, as known through their combined effect, which has scientific significance for us. The ultimate constituents of matter—electrons, atoms, molecules—are of interest to us only in the way in which, in combination, they affect our senses. We seek to understand their nature for the light it will throw upon their behavior in mass, as that behavior affects the matter with which our senses deal. The innumerable events which, in aggregate, constitute a social phenomenon are neither individually known to us nor individually of interest to us.*

All this is a matter which concerns us not as a problem in epistemology but in its practical relation to current scientific questions. Certain aspects of this view of nature should be emphasized because of their bearing upon economic problems.

One point of sharp contrast between the mechanical and the statistical views relates to the existence of individual *variation* in nature. The mechanical conception involves the notion of *sameness,* of the precise identity of all the things or events described by a given law. The statistical view assumes no such similarity of the individual objects constituting the aggregates which are of interest to us. We treat them as statistically similar, but recognize the existence of individual differences. The importance of variation in organic forms has been acknowledged; the failure to perceive differences, and the persistence of the mechanical view as applied to other forms, may be due merely to the inadequacy of our powers of discrimination. "Absolute sameness," says Karl Pearson, "is a purely conceptual notion which is not in human experience, but which has been extracted from that experience in the same manner as other conceptual limits."† Whether this concept of variation be valid as applied to the final constituents of matter need not concern us. In dealing with social and economic phenomena the existence of variation and the consequent inapplicability of the mechanical method must be recognized.

If there be no sameness in nature except that which is due to our own limited powers of discrimination, if our knowledge be limited

* The limitations of statistical knowledge, as regards individual objects or events, have been emphasized by Raymond Pearl, *Modes of Research in Genetics,* 73-100.

† *The Grammar of Science,* 3rd ed., 153.

to knowledge of aggregates and of mass phenomena, there can be no *certainty* in our knowledge of nature and in our generalizations about the relations between things and events in nature. Our knowledge of the individual event must always be inadequate and incomplete; uncertainty and doubt can never be dismissed from our minds. An element of probability must be present in all our reasoning. "Perfect knowledge," Jevons writes, "alone can give certainty, and in nature perfect knowledge would be infinite knowledge, which is clearly beyond our capacities. Therefore we content ourselves with partial knowledge, knowledge mingled with ignorance, producing doubt." This conception of uncertainty and probability in our knowledge of nature is an essential accompaniment of the statistical view, and here again it is at odds with the mechanical concept. The latter assumes perfect knowledge and no variation. "The equations of dynamics completely express the laws of the historical method as applied to matter, but the application of these equations implies a perfect knowledge of all the data." * Where we come nearest to securing such complete knowledge, as, perhaps, on the subject of planetary motion, practical certainty is attained and the element of probability in applying the equations of dynamics may be ignored. A solar eclipse may be foretold with a negligible margin of error. Such certainty, however, represents but a limit, and a limit never attained in our actual knowledge of social phenomena, though we may approach it in our knowledge of the physical world.

Since our knowledge of nature is primarily statistical, and therefore "mingled with ignorance," and since generalizations of the mechanical type imply a perfect knowledge of all the data, which is seldom, if ever, to be had, we are confronted with a question as to the validity of all generalizations purporting to explain sequences or relationships. May such general statements be made in a world in which all knowledge is accompanied by doubt? And if made, how shall we determine their reliability, how measure the degree of doubt attaching to a given generalization? Problems of vital interest to the economist are raised by these questions.

The term *law* has been applied to any general proposition dealing with the relationship between things or events. So understood, it implies nothing compulsive, nothing active, nothing invariable, but such meanings are not infrequently read into the term. Natural laws are often spoken of as though they were active forces, ruling the universe with imperious sway. Of the same order has been the attitude often taken toward the laws of economics; they are viewed as

* Clerk Maxwell. Quoted by Merz, *loc. cit.*, 602.

mysterious forces which govern man's conduct in the industrial sphere, principles which must never be transgressed. Such a view of law, whether natural or social, is, as Dewey says, an animistic survival. A law, as the scientist sees it, does not govern. It is a summary of observed relations, "a brief *résumé* of experience," "a shorthand symbol" which assists in the understanding of a number of related phenomena. Laws are generalizations, not forces.

But not all generalizations are of equal validity. And herein lies the distinction between the mechanical conception of law and that conception which is consistent with the statistical view of nature. According to the mechanical conception, a law is a generalization which is universally true, a description of an invariant relationship. It is implicit in this concept that causal relations are specific, determinate, and of the order of certainties. Effect and cause are linked by iron necessity, unvarying, universally the same. Since such generalizations deal, of necessity, with individual cases, it follows that mechanical laws assume the historical type of knowledge. Such laws are not concerned with averages or probabilities, but with unvarying relationships, holding for every instance. A single exception, a single "obstreperous fact," and the generalization is invalid.

This concept of law is quite inconsistent with the statistical view of nature. In the world of practical events historical knowledge, knowledge of all specific instances or events of a given type, is not to be had. We must content ourselves with knowledge of averages, of types, that is to say, with statistical knowledge. But in generalizing with respect to such averages we cannot put our statements into the form of invariant mechanical laws, for our knowledge stops short of all individual cases. We can conceive of such laws, and of the relation of certainty which they imply, but their existence cannot be established by perception. Our generalizations must deal with trends, tendencies, average relationships, relationships which may lie anywhere along the scale from perfect independence to complete dependence. If the relation falls short of complete dependence, the generalization holds not with certainty, but with some degree of probability. In reality, most laws relating to the physical realm and all laws dealing with social phenomena are of this latter class, describing relationships which do not hold universally, with absolute certainty. To adopt the mechanical view is to confine one's knowledge to but one limit of a whole series of possible relations, a limit so rarely attained in nature as to be virtually a pure concept, not a perceptual fact.

From the statistical point of view, therefore, the notions of invariant mechanical laws, of perfect causal relationship, of complete certainty,

represent only extremes or boundaries. They are Pearson's *conceptual limits,* arising from the necessities of our thinking apparatus, rather than from our actual perceptions. In its attempt to find simplifying principles in a vast and complex environment the mind, with its "all too human love of certainty," conceived of relationships as thus direct and obvious—one cause and one effect. Such a conception has the merit of simplicity, but in its assumptions of absolute sameness and of invariant law it fails to accord with fact.*

In the light of this approach, therefore, we forego the searching for sole causes and, instead, seek to measure the degree of association found in experience between related phenomena. Not the isolation of first and only causes, but the determination of the degree of change in one factor associated with a given change in a correlated factor is the task with which we are generally confronted in a world organized on the statistical plan.

The generalizations which describe relations in such a world, moreover, are never looked upon as necessarily final formulations of truth. Scientific generalizations pass through stages of development, first approximations being improved upon by securing more comprehensive formulae with higher degrees of probability. Thus it would appear that Einstein, if his theories be correct, has not overthrown but has merely introduced a correctional factor into the Newtonian scheme. This process of growth, which can hardly be reconciled with a thorough-going mechanical view, is quite consistent with the statistical concept of law.

This whole conception of the essential problem in scientific study is most effectively summarized in the following passage from Pearson:

"That the universe is a sum of phenomena, some of which are more,

* The following passage from J. M. Keynes is of interest in connection with the discussion of the statistical view of nature, particularly with reference to the character of natural laws:

"The kind of fundamental assumption about the character of material laws on which scientists appear commonly to act, seems to me to be much less simple than the bare principle of Uniformity. They appear to assume something much more like what mathematicians call the principle of the superposition of small effects, or, as I prefer to call it, in this connection, the *atomic* character of natural law. The system of the material universe must consist, if this kind of assumption is warranted, of bodies which we may term *legal atoms,* such that each of them exercises its own separate, independent, and invariable effect, a change of the total state being compounded of a number of separate changes each of which is solely due to a separate portion of the preceding state. We do not have an invariable relation between particular bodies, but nevertheless each has on the others its own separate and invariable effect." *A Treatise on Probability,* 249.

others less closely contingent on each other is the conception, wider than that of causality, which we may at the present time draw from our widening experience. The aim of science ceases to be the discovery of 'cause' and 'effect'; in order to predict future experience it seeks out the phenomena which are most highly correlated. . . . From this standpoint it finds no distinction in kind but only in degree between the data, method of treatment, or the resulting 'laws' of chemical, physical, biological, or sociological investigations. They all provide, or should provide (i) a conceptual routine, which is a functional expression of average experience, and (ii) a measure of the possible or probable deviations from this routine, which is a guide to the amount of variation in experience. Because this is small in some physical experiences, it has been neglected as a matter of little practical value—a routine may vary even considerably without its upsetting conduct. But this neglect is no justification for the assumption that our conceptual routine, a product of the statistical treatment of experience, represents a real functional relationship at the back of phenomena. . . . There is always, in non-organic as in organic phenomena, a residual variation. . . . From this standpoint the universe appears as a universe of variation rather than as a universe controlled by the law of causation in its narrowest sense. No phenomena are causal; all phenomena are contingent, and the problem before us is to measure the degree of this contingency, which we have seen lies between the zero of independence and the unity of causation." *

The technical methods of measuring relationship when the tie is one of contingency and not of certainty need not be discussed here. The point to be emphasized is that these tools are of general scientific interest, that their potentialities are only suggested by the results so far secured in limited fields. They represent a fundamental change in the whole matter of looking at the problem of causal relationship, and an attitude toward natural and social laws which is so far removed from the traditional view as to constitute almost a revolution in thought.

While this view of natural law and of the problem of causal relationship has been presented most clearly and with the keenest appreciation of its significance by Pearson, such a concept is implicit in the writings of other scientists, and has been explicitly developed by several authors. Clerk Maxwell's arguments in favor of the statistical view of nature lead directly to such a conception of natural law. All statements of *tendency*, Royce has asserted, are attempts to frame laws of this correlational type, but with no explicit statement of the

* *The Grammar of Science*, 173-4.

probabilities involved. "The term, tendency," he writes, "is, in every exact usage which you can give it, an essentially statistical term. To say that *a* has a tendency to lead to *b* is to declare that a more or less certainly and definitely known proportion of events of the class *a* are followed by events of the class *b*." * And again "—the law for which the statistical method seeks is no longer a law that is ideally statable in terms of an invariant differential equation or in terms of any other timeless invariant. When found, the statistical law is an account of a collection of facts in terms of averages involving many events." † Jevons' attitude on the problem of causation is quite in accord with the views expressed above.‡ Of contemporary writers, Henry L. Moore has not only clearly described the essential characteristics of statistical laws§ but has demonstrated the fruitfulness of the concept when applied to economic problems.

It is a noteworthy fact that this concept of the nature of laws is in complete agreement with the views of philosophers of the pragmatic school who approach the problem from quite a different angle. John Dewey speaks of generalizations as "not fixed rules . . . but instrumentalities for . . . investigation, methods by which the net value of past experience is rendered available for present scrutiny of new perplexities . . . they are hypotheses to be tested and revised by their further working."|| And elsewhere he writes, "Nature is not an unchangeable order, unwinding itself majestically from the reel of law under the control of deified forces. It is an indefinite congeries of changes. Laws are not governmental regulations which limit change, but are convenient formulations of selected portions of change followed through a shorter or longer period of time, and then registered in statistical forms that are amenable to mathematical manipulation."¶

* Royce, *loc, cit.* 559.

† *Ibid.*, 557.

‡ "I have no objections to use the words cause and causation, provided they are not allowed to lead us to imagine that our knowledge of nature can attain to certainty. . . . A cause is not to be distinguished from the group of positive or negative conditions which, with more or less probability, precede an event. In this sense there is no particular difference between knowledge of causes and our general knowledge of the succession of combinations in which the phenomena of nature are presented to us or found to occur in experimental inquiry." *The Principles of Science,* 226.

§ *The Laws of Wages,* chap. I.

|| *Human Nature and Conduct,* 240-1.

¶ *The Influence of Darwinism on Philosophy and Other Essays,* 72. Henry L. Moore, in "The Statistical Complement of Pure Economics" (*Quart. Jour. Econ.,* xxiii, 16) has quoted part of this passage, and has called attention to the kinship between the pragmatic and the statistical view.

In summary: Our useful knowledge of events in the world about us is essentially statistical in character; that is, it is not concerned fundamentally with unique, individual events, but with aggregates of events which may be described in terms of averages, of typical characteristics. In generalizing about such aggregates we are of necessity precluded from speaking in terms of invariant laws. Such laws as may be formulated for the purpose of summarizing past experience must be formulated in terms of averages, and therefore assert not certain relations but only probable and approximate relations, insofar as individual events are concerned. Such a view of the nature of law involves a recognition of the purely imaginary character of the concept of causation, in the sense of a direct and perfect relationship between phenomena. Association and correlation are the terms which replace causation, as probability and approximation replace the concept of certainty.

5. SUMMARY AND CONCLUSIONS

The foregoing arguments may be briefly summarized.

Nature is so organized and human faculties are so circumscribed that complete knowledge of the historical or descriptive type is impossible. We cannot discriminate or handle scientifically the multitude of unique objects and events which make up the universe of facts in any given field. We must deal with phenomena in the aggregate, sacrificing detailed knowledge of individual things and events for the wider, more useful, though less precise knowledge of averages. Knowledge of single events, moreover, is of little practical use because of variation in nature, because individual phenomena, even of the same type, are not identical. This is particularly true in the realm of economics. Here not only is it impossible to secure comprehensive and exhaustive knowledge of individual events, but such events have significance for us only when considered in the mass. We would have no use for knowledge of the multitude of individual events, even were such knowledge to be had.

From this view, the generalizations which we term laws are not to be accepted as statements of invariant mechanical relationships, but as statements of tendencies, of average relations. In fields where the degree of variation is slight, the conception of perfect mechanical relationship—cause and effect linked by invariant ties—approximates the truth, but material error is involved in the strict application of this mechanical concept in fields characterized by wide variation and a multiplicity of causes. This is the situation in the field of economics.

Hence even the most exact of the laws of economics must be interpreted in this statistical sense.

These facts bear directly upon the question of method in the study of economic problems. While it is recognized that induction and deduction must constantly supplement each other, it is suggested that the relative importance of these methods varies in different scientific fields. The methods of deduction may be expected to be most fruitful in fields characterized by slight variation, in which there is a close approach to the conditions of sameness and invariant relationship which are essential to the validity of the mechanical view. While the test of facts must be met here, it will be satisfied by a relatively small amount of inductive evidence. In fields marked by wider variation, where the generalizations must admit of many exceptions, the fruitfulness of deductive reasoning is more limited, and the direct study of facts, assembled and classified, must play a dominant part in scientific investigation. Induction increases in importance as the causes in operation increase in number, as variation becomes more pronounced, and as the relations between phenomena depart farther from the simple cause and effect connection which is assumed in the application of mechanical methods. Since a multiplicity of causes and wide variation within classes of phenomena are characteristic of the data of economics, induction must ever be one of the most important tools employed by the economist.

To a greater extent than ever before economists are today seeking to secure the accuracy and precision which quantitative methods ensure. Induction in a quantitative science of economics involves the handling of numerical facts in the mass; its methods must be statistical. Statistical induction is, in all essential respects, similar to induction of the more general type, except that its results are quantitative in form, and that its generalizations are not necessarily universal. Its conclusions deal with frequencies, averages, or with relationships which hold on the average, or in a certain percentage of cases. Exceptions and limitations are recognized. That is, the generalizations which are the objects of statistical induction are of the type described in discussing the meaning of law from the statistical view. They represent the only valid type of generalization, if this view of nature be correct.

Since statistical generalizations hold only with a degree of probability, it is essential that in any given case we determine the reliability of the result by measuring this degree of probability. This necessitates the determination of probabilities empirically. A measure of probability may be secured in this way, but it is a measure to which absolute

certainty can never attach. From sheer force of necessity we must employ these empirical methods which furnish approximations to the true probabilities involved; they constitute "the only logic for the practical man." But their approximate character should always be recognized, and every effort should be made to reduce the margin of error.

This margin of error may be reduced in two general ways. The first is based upon the assumption that there is some measure of initial probability in favor of an inductive conclusion. The greater this *a priori* element the more certain we may be that our conclusion has validity, and that the results secured by the method of inverse probabilities are a true measure of the reliability of this conclusion. If the *a priori* element be entirely absent, and we trust to sheer empiricism, a strong and unmeasurable degree of doubt must attach to the generalization.

The second method of increasing the reliability of inductive findings requires the testing of the stability of the statistical ratio or measure of relationship under varied conditions. This purely statistical method of examining the stability of a given result, when the data are re-grouped in significant ways, may serve to increase materially the strength of a statistical argument. This process is more fruitful than that of merely increasing the number of cases. By these two methods the degree of doubt which enters into every inductive argument may be reduced to a minimum, and the probability of error involved in any extension of the results reduced until it approximates the measure derived by ordinary mathematical methods.

The development of the statistical method has placed in the hands of the inductive economist a trenchant tool, and has given his results precision and practical utility which in the past they have lacked. Yet a loose employment of this tool constitutes a dangerous pitfall. Because the statistical method presents quantitative results, in the form of mathematical equations and coefficients, an impression of absolute accuracy which is frequently thoroughly misleading is conveyed. It is, therefore, highly essential that the logical limitations of this method be clearly understood, and that all necessary precautions be observed in using statistical results as foundations of inductive arguments.

There are dangers in the employment of induction to which the worker in the statistical field is particularly exposed. There is danger that immersion in technique will blind him to unsound assumptions and inherent limitations. And there is the abiding danger of overemphasis on mere fact gathering, of attempting to find truth through

the weight of a multitude of facts alone. Facts must be illuminated by the play of speculative reasoning, by "the light of the idea," before they can have significance, before valid generalizations can be secured. That there is a logical reason for the sterility of unilluminated facts has been emphasized in stressing the need of an initial *a priori* probability in favor of a given conclusion. This initial probability is perhaps strongest when, in Broad's phrase, we feel that we have got hold of the fundamental ground plan of nature in a given field. We "flounder about in the dark till some man of genius sees what are the really fundamental factors and the really fundamental structure of the region of phenomena under investigation." When we have secured this ground plan, the "limping methods of empiricism" become fruitful, and inductions carry conviction.

Yet here we are not harking back to pure deduction as the basic method of science. The understanding of the ground plan which explains and illuminates a wilderness of miscellaneous facts is secured ordinarily only by a study of the facts. It does not leap full-formed out of chaos, but grows in the mind of the man of genius, or in the consciousness of the race, by successive approximations. Facts must furnish the fuel for the light of the idea. Darwin started to assemble facts in true Baconian fashion, he says, and arrived only after years of study and classification at the great generalization which gave meaning to his multitudinous data.

It may be that it is only given to the man of genius to arrive at the profound generalizations which shape the course of scientific study for centuries. But such generalizations are, in fact, the products of the labor of thousands of workers who have derived the limited conclusions, the tentative generalizations, the empirical formulae which suggest the all-inclusive generalization that may finally top the structure. The aim of that economic research which would be most fruitful in a practical and immediate way must be the limited generalizations which relate to specific groups and specific conditions. In the derivation of such "laws" quantitative induction based upon statistical results must play a leading part.

That the conclusions obtained by statistical methods relate, in general, only to specific cases, and can be generalized only with extreme precaution and careful qualification, is perhaps not altogether unfortunate. Economists who seek all-embracing laws are not unlike philosophers in search of the absolute. Practical and immediate problems are too often neglected in the chase of a rainbow in the shape of a generalization of universal validity. Better immediate knowledge which will help to remedy specific maladjustments than general laws

to which there are so many exceptions that they fit nothing. The practical problems facing economists today will be more readily solved and human welfare will be more effectively furthered by quantitative study of specific conditions than by the attempt to apply vague generalizations of doubtful validity. In economics, as in philosophy, "Interest . . . shifts from an ultimate goal of good to the direct increments of justice and happiness that intelligent administration of existent conditions may beget and that present carelessness or stupidity will destroy or forego." *

* John Dewey, *The Influence of Darwinism on Philosophy, and Other Essays,* 11.

Wesley Clair Mitchell

1874–1948

and

Arthur F. Burns

1904–

W. C. Mitchell was an early admirer of Thorstein Veblen and of the old ironist's capacity to spin theories and play with ideas. Mitchell's own interest in the development of intellectual conceptions found its outlet in a famous course which he taught for many years at Columbia on "Types of Economic Theory." But Mitchell was skeptical of the value of idea-spinning which was ungrounded on the solid rock of empirical fact. Veblen's very virtuosity was evidence of this necessity: ". . . if anything were needed to convince me that the standard procedure of orthodox economics could meet no scientific tests, it was that Veblen got nothing more certain by his dazzling performances with another set of premises."

In his own search for more substantial verification, Mitchell turned to the phenomenon of the business cycle. His 1913 volume, Business Cycles and Their Causes, *advanced an explanation of economic fluctuation which emphasized the central importance of the relations between prices and costs. Shortly after the First World War, Mitchell founded the National Bureau of Economic Research which has ever since devoted itself to the careful construction of quantitative measures of important business activities and cautious generalizations based upon these investigations. Simon Kuznets's pioneer investigations of national income were a major achievement of the National Bureau approach to economic understanding.*

First by himself and later with the collaboration of Arthur F. Burns who succeeded him as Director of Research at the National Bureau, Mitchell devoted himself to the creation of appropriate techniques for the measurement, partial statistical decomposition, and patterned rearrangement of the factual materials drawn from the record of business activity. The culmination of this prolonged effort was the large

volume Measuring Business Cycles, *which Burns and Mitchell published in 1946. This huge study is the clearest and fullest explanation available of the actual statistical methods, the conceptual problems, and the typical results that the National Bureau approach to measurement have generated. It is both an important contribution to the study of the business cycle and a model laboratory notebook for the edification of other economists.*

The attitude and statistical caution of the Burns and Mitchell mode of analysis are exemplified in their definition of the business cycle:

> *Business cycles are a type of fluctuation found in the aggregate economic activity of nations that organize their work mainly in business enterprises: a cycle consists of expansions occurring at about the same time in many economic activities, followed by similarly general recessions, contractions, and revivals which merge into the expansion phase of the next cycle; this sequence of changes is recurrent but not periodic; in duration business cycles vary from more than one year to ten or twelve years; they are not divisible into shorter cycles of similar character with amplitudes approximating their own.*

Each clause of the definition is the summary of careful factual investigation. The result is a working definition as susceptible to empirical verification. It might be noted that the definition departs from the conclusions of some other workers in this field in failing to distinguish categories of cycles associated with varying length.

It is amusing to contrast the "political arithmetic" of the National Bureau—meticulous and accurate in quality—with Petty's fanciful play with number, measure, and weight. The contrast does suggest that if science is truly measurement then political economy has come a long way in three centuries.

This selection is the opening chapter of Measuring Business Cycles, *by Wesley Clair Mitchell and Arthur F. Burns (National Bureau of Economic Research, 1946), pp. 3-14.*

CHAPTER I Working Plans

I. THE POINT OF DEPARTURE

This and succeeding volumes of the National Bureau's *Studies in Business Cycles* take as their point of departure a definition reached in an earlier volume.* With modifications suggested by experience in using it, the definition runs as follows:

* Wesley C. Mitchell, *Business Cycles: The Problem and Its Setting* (National Bureau of Economic Research, 1927), p. 468.

> Business cycles are a type of fluctuation found in the aggregate economic activity of nations that organize their work mainly in business enterprises: a cycle consists of expansions occurring at about the same time in many economic activities, followed by similarly general recessions, contractions, and revivals which merge into the expansion phase of the next cycle; this sequence of changes is recurrent but not periodic; in duration business cycles vary from more than one year to ten or twelve years; they are not divisible into shorter cycles of similar character with amplitudes approximating their own.

This definition lists the observable characteristics of what we assume, pending closer study, to be a distinct species of economic phenomena. It attempts to differentiate business cycles from the fluctuations in aggregate economic activity that occurred prior to the emergence of our business economy, and from other types of fluctuations in modern times. It is thus a tool of research, similar to many definitions used by observational sciences, and like its analogues is subject to revision or abandonment if not borne out by observation.

Whether an investigator needs to condense his concept of business cycles into a definition, and what kind of definition he needs, depends upon the researches he has in view. Many theorists feel justified in assuming that readers know what business cycles are; the use of that term or one of its equivalents suffices to designate the range of experience they plan to explain. Others pave the way by defining business cycles as recurrent departures from and returns toward 'a normal state of trade,' or 'a position of economic equilibrium.' Still others, intent from the start upon some line of explanation, begin by confining the discussion to movements arising from the factors they have in mind; they may say, for example, that business cycles are recurrent alternations of prosperity and depression generated by 'factors originating within the economic system itself,' or that business cycles are departures from equilibrium arising from discrepancies between 'the' market rate of interest and 'the natural rate.'

Whatever their working concepts, and we have done no more than illustrate the diversities, all investigators cherish the same ultimate aim—namely, to attain better understanding of the recurrent fluctuations in economic fortune that modern nations experience. This aim may be pursued in many ways. The way we have chosen is to observe the business cycles of history as closely and systematically as we can before making a fresh attempt to explain them.

At the beginning of this investigation our knowledge of business cycles was derived partly from an imperfectly digested mass of fact-

tual observations, partly from a great variety of untested hypotheses. Journalists in many lands have been publishing impressions concerning changes in the state of trade week by week and year by year for many decades. Useful as are the business annals that have been compiled from these materials, they give at best vague accounts, in terms that are general and shifting. Within the last generation, statisticians have been making more precise observations by analyzing time series and compiling 'indexes of business conditions.' Their work is instructive; but differences in method make it difficult to compare and combine the results of the many investigations, and the best of the business indexes cover too short a period or are woefully incomplete in coverage. Meanwhile with increasing finesse economic theorists have been tracing causal relationships among the cyclical movements of different activities. Their work is often highly suggestive; yet it rests so much upon simplifying assumptions and is so imperfectly tested for conformity to experience that, for our purposes, the conclusions must serve mainly as hypotheses. Nor can we readily use the existing measures of statisticians to determine which among existing hypotheses account best for what happens. Satisfactory tests cannot be made unless hypotheses have been framed with an eye to testing, and unless observations upon many economic activities have been made in a uniform manner.

If we are to observe the business cycles of actual experience closely and systematically, we need a working definition that tells where to look and for what to look. It must list observable characteristics, particularly such as differentiate business cycles from other movements with which they may be confused. To say that business cycles are departures from and returns toward a normal state of trade or a position of equilibrium, or that they are movements resulting from discrepancies between market and natural rates of interest, will not help, because we cannot observe normal states of trade, equilibrium positions, or natural interest rates. Nor, when we start observing, can we tell whether cyclical movements are due to factors originating within the economic system or outside of it.

Though business annals, time-series analysis, and business-cycle hypotheses in their present forms do not provide the knowledge we need, they put us in the path of learning more. It was by analyzing these three sets of contributions that our definition was developed. Considerable evidence can now be cited to support its every clause. But an intensive study of the best available records is necessary if we are to ascertain conclusively whether many economic activities really fluctuate in unison as the definition states, and how different

activities behave with respect to the alleged cycles. Once that is accomplished we can proceed to the next step: to explain how business cycles run their course and their tendency toward variation.

II. QUESTIONS RAISED BY THE DEFINITION

How much there is to learn about business cycles begins to appear when our working definition is examined critically. Every clause suggests hard questions, some of which raise doubts about the validity of the concept itself.

Thus the definition states that business cycles occur in 'nations' whose economic activities are organized 'mainly in business enterprises.' Does a large nation, such as the United States, have a single set of business cycles, or do the several geographical regions have substantially different cyclical movements? Or is a nation too small, rather than too large, a geographical unit to observe? May it not be best to treat business cycles as international movements? How far back in history can business cycles be traced? If they are associated with a form of economic organization that is itself evolving, are they subject to secular changes that make recent cycles noncomparable with those of earlier times? The term 'business enterprise' connotes a measure of individual initiative and competition. Do business cycles fade out when freedom of enterprise is drastically limited by governmental controls, or when competition is virtually suppressed by private monopoly? Did they disappear in Fascist Italy, Nazi Germany, Soviet Russia? Even in Great Britain and the United States, have not business cycles undergone progressive changes?

The statement that cyclical expansions occur at about the same time in 'many economic activities' is vague. In some contexts 'economic activities' mean specific acts performed by individuals, while in others the same words signify a few broad categories of actions performed continuously by millions of people, as when an economist speaks of the production, exchange and distribution of wealth. Clearly, our definition requires that we go back of broad aggregates or index numbers of economic activity, such as indexes of production and prices, or national aggregates of income, employment, bank clearings, and imports. But how far is it wise to break down the aggregates and examine their constituent parts? If broad aggregates hide differences among their constituents that are significant for understanding business cycles, may not economic activities be atomized to the point where cyclical movements are obscured by the idiosyncrasies of small units?

Our definition presents business cycles as a consensus among ex-

pansions in 'many' economic activities, followed by 'similarly general' recessions, contractions, and revivals. How 'general' these movements are, what types of activity share in them and what do not, how the consensus differs from one cyclical phase to another, and from one business cycle to the next, can be learned only by empirical observation. And that is more than a mere matter of counting the series that rise and that fall during a given phase. A rise in bankruptcies when most activities are expanding would be a movement counter to the tide; a fall is what we expect, usually find, and interpret as sharing in the consensus of movements. Copper prices move with the general tide if expressed in cents per pound; they move counter to the tide if expressed as pounds per dollar. Thus not only the character of the activity represented but also the form in which the record is kept determines whether a series is related positively or invertedly to business cycles. Hence, it is necessary to know precisely what each series represents and its bearing on economic activity as a whole.

The statement that similar cyclical movements occur 'at about the same time' in many activities admits the possibility of 'leads' and 'lags.' But the implication is that the cyclical turns of different processes are concentrated around certain points in time; for if there were no bunching of cyclical turns, there would be no business cycles answering to our definition. We can imagine a world in which every economic activity is subject to cyclical fluctuations, but in which the divergences in the timing of these cycles produce an unchanging total. The need for ascertaining leads and lags is thus clear from the start. And the significance of this inquiry grows as the results multiply and demonstrate characteristic differences in the timing of different types of activity.

The sequence of expansion, recession, contraction, and revival is said to be 'recurrent but not periodic.' To determine the respects in which and the regularity with which the sequence recurs, it is necessary to identify and compare successive business cycles. But will our definition enable us to identify business cycles among the other movements—seasonal variations, random changes, and secular trends—with which they are interwoven? And is there only one set of cyclical fluctuations in general business activity? May not the business cycles we identify be the net resultants of several sets of general cycles running concurrently, each set perhaps periodic but combining with cycles of other periods to produce the variability our definition admits?

Another tacit implication of the definition is that business cycles run a continuous round; for the definition says that expansion is followed by recession, recession by contraction, contraction by revival,

and revival by a fresh expansion. No intervals are admitted between one phase and its successor, or between the end of one cycle and the beginning of the next. Yet current reports sometimes speak month after month of a confused state of trade, and statistics often indicate that some industries or localities are doing well while others of equal importance are dull or depressed. Granted that our concept of business cycles fits the facts much of the time, can we claim that it fits them all of the time? To answer with assurance, it is again necessary to investigate the behavior of many activities and determine whether the alleged consensus among their cyclical movements is continuous or intermittent.

The definition gives 'more than one year' as the lower limit of duration of business cycles, and 'ten or twelve years' as the upper limit. These figures rest upon an earlier attempt to identify the cycles revealed by a considerable collection of business annals and a smaller collection of business indexes.* Neither set of materials is thoroughly satisfactory. We can hardly suppose that current commentators are infallible summarizers, or that the compilers of business annals are infallible digestors. Nor can we be confident that statistical indexes represent correctly the cyclical movements in the general condition of business.† Hence we cannot rely exclusively upon annals and business indexes to mark off business cycles and measure their durations. Even for that seemingly simple task, it is necessary to compare individual time series covering many activities, though the data become scantier and we know the results will be less assured the further back we go.

The last clause of the definition brings up a related problem. Our examination of business indexes, and less definitely of business annals, forbade us to think of business cycles "as sweeping smoothly upward from depressions to a single peak of prosperity and then declining steadily to a new trough."‡ On the contrary, the expansion and contraction of many cycles seem to be interrupted by movements in the opposite direction, and some cycles apparently have double or triple peaks or troughs. When the irregularities are slight they do not seriously complicate the task of identifying business cycles, but in some instances, notably in this country since 1930, they attain considerable proportions. Hence the need of criteria for deciding what reversals in direction mark the end of a cyclical phase. Most brief movements are excluded by the clause that business cycles cover 'more than one year.' By adding that they 'are not divisible into

* *Ibid.*, pp. 339-43, 391-407.
† *Ibid.*, pp. 365-75.
‡ *Ibid.*, pp. 329ff.

shorter cycles of similar character with amplitudes approximating their own,' a rule is laid down for deciding when to treat movements lasting several years as a single cycle and when to recognize two or more cycles.* But this rule cannot be applied without knowing at least approximately what amplitudes are characteristic of business cycles.

III. 'INDUCTIVE VERIFICATION' OF BUSINESS-CYCLE HYPOTHESES

The need to answer the difficult questions suggested by our definition is not peculiar to the plan of research we have chosen. Any investigator who sets out to explain the business cycles of the actual world should know what he is explaining; that is, at some stage of his work, he should identify the cycles of historical record and study their characteristics.

Systematic factual research is often thought of as belonging to the stage of 'inductive verification,' and 'inductive verification' as a step to be taken *after* a 'theory' has been excogitated. Of course no writer has ever attempted to devise a hypothesis concerning business cycles entirely apart from the facts to be explained. But theorists have not infrequently been handicapped by a sadly incomplete, sometimes by a badly twisted, knowledge of the facts. Numerous writers have invented plausible explanations of business cycles before they have tried to ascertain what consensus actually prevails among the cyclical movements of different economic activities: which activities have a positive, which an inverted, relation to the supposed consensus, and which follow a path of their own; the timing relations among the movements and the relative amplitudes they attain; how considerable are the checks encountered and overcome by business-cycle expansions and contractions; how long these phases last; what changes in business cycles have accompanied or followed secular and structural changes in economic organization; how the cycles in different countries compare with one another in timing, duration, and amplitude—in short, without knowing definitely the actual behavior for which their explanations should account.

When this order of inquiry is followed—explanation preceding thorough knowledge of what is to be explained—the results are likely to be unhappy. (1) The theorist often stops before his work is finished, leaving 'inductive verification' to others, who may or may not take on the job. (2) When anyone tries to 'verify' a hypothesis about

* This rule is necessary as a 'brake' on an investigator's pattern sense which, while the source of all true knowledge, may lead to mischievous fictions.

business cycles, he often finds that it rests on assumptions purposely chosen to simplify the situation that is analyzed. In that case evidence drawn from the actual world has a problematical relation to the simpler world of the theorist's imagination; the hypothesis propounded may be logically impeccable, but it cannot be confirmed or refuted by an appeal to facts. (3) Granted that the hypothesis concerns actual experience, the worker who tries to verify it must examine the processes on which it centers attention; but unless he examines other processes as well, the test will be superficial. As pointed out in another volume:

> Recent writers upon business cycles differ . . . less in principle than in emphasis. . . . Each gives chief attention to the one or more factors which he believes to play the chief causal role; but many writers also show how the changes produced by their chosen causes affect other processes, and in so doing they are likely to find use for the work of men whose distribution of emphasis differs from their own.
>
> Among the factors to which the leading role in causing business cycles has been assigned by competent inquirers . . . are the weather, the uncertainty which beclouds all plans that stretch into the future, the emotional aberrations to which business decisions are subject, the innovations characteristic of modern society, the 'progressive' character of our age, the magnitude of savings, the construction of industrial equipment, 'generalized over-production', the operations of banks, the flow of money incomes, and the conduct of business for profits. Each of these explanations merits attention from those who seek to understand business cycles; for each should throw light upon some feature or aspect of these complex phenomena.*

Hence, an investigator who seeks earnestly to discover the cause or causes of business cycles should not restrict himself to testing any single hypothesis. If he concludes that the facts of experience are consistent with one hypothesis, he should make sure that they are not equally consistent with other hypotheses. In the measure that he is thorough, his effort will broaden into an attempt to test many hypotheses and determine how they fit together.

Anyone who embarks upon such a venture will presently encounter all the difficulties that confront this investigation. He must satisfy himself whether there really are cyclical fluctuations in general business, and if so what are their characteristics. For that purpose he must study the cyclical behavior of many activities, determine which do and which do not fluctuate in unison, what are the timing

* *Ibid.*, pp. 11, 12.

relations among their expansions and contractions, what amplitudes these fluctuations attain; in brief, he must identify business cycles, and in the process answer as best he can the hard questions listed in the preceding section.

This work cannot be organized in the most effective way by taking up one hypothesis after another for 'verification.' "The plan of testing theories would indeed lead to work with the facts, but in an artificial order, and one involving much repetition." * The investigator can save time, all the more important because the undertaking is so huge, by concentrating upon a systematic examination of the cyclical movements in different economic activities, classified in whatever fashion seems best suited to his purpose. In making this examination, he will not put the 'theories' aside: on the contrary he will use them continuously as hypotheses concerning what activities and what relations among them are worth studying. In that way they will be of inestimable value in his factual inquiries. Also, his detailed studies are likely to suggest new hypotheses from time to time, or modifications of old ones, and they too will direct his researches. But he will not think himself equipped to judge what contribution any hypothesis makes to the understanding of business cycles until he has attained as clear a view as he can of the whole congeries of interrelated movements. If this attitude of suspending judgment taxes patience at times, the investigator can comfort himself with the belief that, so far as he succeeds in showing what cyclical behavior is characteristic of economic activities, he will put others as well as himself in a better position to evaluate hypotheses.

IV. THE DATA NEEDED FOR OBSERVING CYCLICAL BEHAVIOR

The longest records of cyclical fluctuations in economic activities are the contemporary opinions of journalists. They show that men whose business it was to report the condition of trade were impressed by the alternations of prosperity and depression long before the concept of business cycles had been formulated. They indicate what years were deemed good and what years bad by contemporaries, and thus are helpful in identifying successive business cycles, and in making rough measures of their duration. Further, they often call attention to the branches of trade that prospered notably or suffered in exceptional degree at particular periods. But the business annals we now have, specifically the compilation made by Willard L. Thorp and published by the National Bureau in 1926, do not provide detailed

* *Ibid.*, p. 58.

and continuous observations upon the changing fortunes of many branches of trade.*

Better suited to our purposes are time series that record the fluctuations of specific processes or transactions from month to month, quarter to quarter, or year to year, though, as will be demonstrated in Chapter 6, annual data leave much to be desired. These materials must be sufficiently abundant to allow systematic comparisons of the behavior of different activities in the same business cycle, and of the same activity in different cycles. Obviously, no single time series can reveal business cycles as we have defined them. At best a series reveals only the cyclical changes in one activity or group of activities, such as mining coal, building houses, hauling freight, paying wages, trading in securities, clearing checks. Nor do index numbers —whether of prices, production, employment, or what not—represent more than the average changes of specific factors in business. Even the audacious statistician who constructs what he calls an 'index of business conditions,' perhaps basing it upon indexes of production, prices, sales, employment, and financial operations, is not charting the course of business cycles. Apart from the limitations of coverage, his composite shows net resultants, not similar movements in many activities.† A business index may establish a presumption that the activities it represents fluctuate in unison, but the presumption must be tested before it is accepted, and an adequate test entails examining the cyclical behavior of many series. To repeat: only by analyzing numerous time series, each of restricted significance, can business cycles be made to reveal themselves definitely enough to permit close observation. If we wish to know what the wholes are like, we must study the parts and then see what sort of wholes they make up.

V. REQUIREMENTS THAT TECHNIQUE MUST MEET

To determine the cyclical behavior characteristic of different economic activities, we should have a method that yields comparable results when applied to a wide variety of time series. If possible, the results should be in quantitative form, that is, we should *measure*

* Of course, fuller and probably more representative annals can be compiled by ransacking the sources, and much can be learned about business cycles by work of this sort. But no compilation can transcend the limitations of its data. We believe that at the present stage of research more can be accomplished by analyzing time series than by elaborating annals; though the latter effort promises to contribute heavily to knowledge of those periods and countries for which the statistical record is scanty.

† See *ibid.*, pp. 307-26, for a critique of business indexes.

the cyclical behavior of economic activities; otherwise we cannot say definitely what uniformities and what differences appear among the movements.

The questions raised in Section II suggest that we must ascertain, first of all, what economic activities reveal recurrent sequences of expansion, recession, contraction, and revival, lasting more than one year but not more than ten or twelve years. We call such cyclical movements in a time series its 'specific cycles.' According to our methods of observation, specific cycles appear in a preponderant majority of the time series in our collection. But there are some exceptions, and it is as much a part of our task to learn which economic activities are virtually immune to cyclical contagion as to learn which are sensitive to it. Without such knowledge we cannot judge how general is the alleged consensus among cyclical movements.

Next, we need to know how the specific cycles of different activities are related to one another in direction of movement, in the timing of their peaks and troughs, and in the duration of their expansions and contractions. Knowledge of the existence or nonexistence of specific cycles in many economic activities, and of their agreement or nonagreement in direction of movement, timing, and duration are obvious prerequisites for determining empirically whether there are business cycles answering to our definition. Finally, we must have measures of the amplitude of the cyclical movements of individual activities and of their rate of change during cyclical expansions and contractions. These measures together with those showing the sequence in which different activities turn up at business-cycle revivals and turn down at business-cycle recessions are essential in tracing causal relations.

In order to observe these several features of specific cycles closely, the original data of time series must be subjected to several operations. Before the specific cycles of a series are identified, it is desirable to remove the seasonal variations. To compare the amplitudes and patterns of specific cycles in series that run in different physical units, different sums of money, or in the form of ratios, some common denominator is necessary. The simplest plan is to express the original data as percentages of their average value during a specific cycle, and determine in terms of these percentages the rise from trough to peak, the fall from peak to trough, and the change from one stage to another into which the phases of expansion and contraction may be broken. That plan has the further advantage of eliminating in step-wise fashion the secular trend of a series.

More elaborate preparations are required to measure cyclical timing. If we attempted to compare the turning dates of the specific

cycles in all the series analyzed, millions of comparisons would be required; for our investigation, though far from complete, already includes over eight hundred monthly and quarterly series for the United States alone, a few of which cover more than twenty specific cycles. Our solution of this difficulty is to draw up a table of 'reference dates' that purport to mark off the troughs and peaks of successive business cycles, and to measure the leads or lags of specific-cycle troughs and peaks from these benchmarks. This step is the crux of the investigation; it involves passing from the specific cycles of individual time series, which readers not embarrassed by experience are likely to think of as objective 'facts,' to business cycles, which can be seen through a cloud of witnesses only by the eye of the mind. We prepared for the transition by modeling the definition of specific cycles upon that of business cycles, as the reader may have noticed. Granted that the time series representing many economic activities show recurrent sequences of expansion, recession, contraction, and revival, lasting more than one year but not more than ten or twelve years, we should be able to determine whether there is a consensus among these movements. If there is, the dates of specific-cycle troughs of individual activities must be concentrated around certain points of time, and the like must be true of specific-cycle peaks. We can then proceed to identify business cycles in the country from which the time series come, assign approximate dates to their troughs and peaks, and plunge into a study of the behavior of different economic activities within the periods thus marked off.

The logic of this procedure may seem to imply that the specific cycles in all series we intend to analyze for a country should be identified before attempting to identify its business cycles. That is a counsel of perfection on which we could act only if we knew at an early stage of the investigation many things learned in the course of the work. We did not know at the start just what time series should be analyzed among those readily available, or what gaps should be filled by new compilations. Nor did we know what importance to attach to different time series as indicators of cyclical turns in general business activity. Only as we discovered the relations of many activities to the general consensus among cyclical movements could we form intelligent judgments upon these matters. This process of 'learning on the job' would have been inefficient if we had confined analysis to specific cycles for a long while, and postponed trying to see how they fit together into business cycles.

At an early stage of the investigation we thought it prudent to compare the specific cycles in numerous series. Rough tabulations of specific-cycle turns suggested that they clustered around certain

months, which usually came in years when business annals reported a recession or revival. These results were reassuring, but we wished to test them systematically. The best way was to settle on an experimental set of 'reference dates' and see how they met expectations, when applied in the analysis of new series. By a process of trial and error, we were able to work out several years ago a set of dates that fitted fairly well both the annals and what we then knew about specific-cycle turning dates. These reference dates have been utilized in analyzing additional series and thus subjected to further tests. And this process of refinement must continue: the reference dates, like our definition of business cycles, are a tool of research subject to revision as more is learned about the phenomena they help us investigate.

But once a set of fairly well tested reference dates is obtained for a country, we can show in detail how different activities behave during business cycles: how the cyclical turns of different series are related to one another, and how their movements compare in magnitude and direction from stage to stage of business cycles. For the latter purpose, every time a series is broken into segments corresponding to the periods occupied by the business cycles of the country to which the series refers, and the seasonally adjusted data for each segment are turned into percentages of their average value. This step enables us to measure in a common unit the rise or fall of different economic activities from stage to stage of business-cycle expansions and contractions.

For an economic historian concerned with what happened in a particular period these measures of the behavior of time series during individual specific or business cycles may be sufficient. An economic theorist, however, wishes to know primarily what features have appeared in all or in most cycles, though he should be interested also in the variability of the phenomena, which is one of their most striking characteristics. The thousands of people who nowadays anxiously follow the course of business cycles have practical needs that combine those of the historian and theorist. They are as deeply immersed in what happens at a particular period as any historian; but in trying to foresee what will happen in the near future they require knowledge of the type a theorist strives for. Thus our historical studies of individual business cycles should be supplemented by efforts to learn whatever we can concerning the uniformities and diversities among them. This final requirement laid upon our technique of observation calls for averaging the measures of cyclical behavior during successive specific cycles and during contemporaneous business cycles. Of course, we must examine also the way in which measures of individual cycles are distributed about their means.

C. HISTORY

Friedrich Engels

1820–1895

What did the English Industrial Revolution in the period 1760-1832 mean to the English rural laborer? What was the condition and the fate of the new urban proletariat? Was the Industrial Revolution a quickening of the pulse of the economy which alone made possible the better life of a larger organism? Was it a tale of cruelty to little children, capitalist indifferences to suffering, destruction of rural amenities and failure to replace them in the cities, and the creation of the ugliest mode of urban existence in man's history? The debate over questions of this nature is not yet stilled. The Hammonds in a series of volumes including The Evolution of Modern Industry, The Town Labourer, The Skilled Labourer, The Village Labourer, *and* The Bleak Age *gave gloomy answers to these questions. Their emphasis was upon the excesses of the new factory discipline, the horror of the new industrial cities, the disruption of traditional ways of life, and the insensitivity of the new economic masters of industry. Much of their tale ran in descriptive, almost anecdotal terms. While the Hammonds were not Marxists, their portrait of an anguished England bears resemblances to the long historical illustrations in the first volume of Marx's* Capital, *as well as in Engels's early* The Condition of the Working Class in England in 1844, *from which the present selection is taken.*

In the last generation, this judgment on the Industrial Revolution has been challenged by the work of T. S. Ashton and Sir John Clapham. Their conclusions are founded upon several kinds of argument. In the first place, as they tell the story, life in the countryside as well as in eighteenth-century London was difficult, poverty-stricken, and short in duration. Rural laborers were at least as much pulled to the cities by the attractions of higher wages and brighter prospects as

they were shoved from the land by accelerated enclosures. Nor was the pace of industrialization as rapid as earlier accounts had alleged. In the new cities social disorganization was the consequence of capital shortages, unprecedented problems of public administration, a necessarily experimental attitude to urban housing, high interest rates, and technological inadequacy. Life was better in the cities, just as it was worse in the country, than the Hammonds and the Marxists had argued. This last conclusion was reinforced by careful analysis of more statistics than were available to the Hammonds. These statistics tend to demonstrate that during the period of the Industrial Revolution (a term that Clapham prefers not to use) living standards among urban workers persistently rose. The final proof of the beneficence of the Industrial Revolution is to be found in Ashton's argument that only by this acceleration in technical change was it possible to multiply the population of England during the nineteenth century and to offer that population substantially more than it had ever enjoyed before.

This is not the place to settle an argument at whose bottom a mystery must remain. Even if the Clapham-Ashton side of the argument has the better statistical case, no one can measure the balance of happiness or unhappiness which the powerful surge of industrialization occasioned. The challenge to the wielder of a Benthamite felicific calculus must remain unaccepted.

Engels's picture, while drawn in lurid colors and focused only on misery and slums, was faithful to some of the conditions of English life. This extract is taken from The Condition of the Working Class in England in 1844 (*London: Allen & Unwin, 1892*), *pp. 26-57.*

The Great Towns

A town, such as London, where a man may wander for hours together without reaching the beginning of the end, without meeting the slightest hint which could lead to the inference that there is open country within reach, is a strange thing. This colossal centralisation, this heaping together of two and a half millions of human beings at one point, has multiplied the power of this two and a half millions a hundredfold; has raised London to the commercial capital of the world, created the giant docks and assembled the thousand vessels that continually cover the Thames. I know nothing more imposing than the view which the Thames offers during the ascent from the sea to London Bridge. The masses of buildings, the wharves on both

sides, especially from Woolwich upwards, the countless ships along both shores, crowding ever closer and closer together, until, at last, only a narrow passage remains in the middle of the river, a passage through which hundreds of steamers shoot by one another; all this is so vast, so impressive, that a man cannot collect himself, but is lost in the marvel of England's greatness before he sets foot upon English soil.*

But the sacrifices which all this has cost become apparent later. After roaming the streets of the capital a day or two, making headway with difficulty through the human turmoil and the endless lines of vehicles, after visiting the slums of the metropolis, one realises for the first time that these Londoners have been forced to sacrifice the best qualities of their human nature, to bring to pass all the marvels of civilisation which crowd their city; that a hundred powers which slumbered within them have remained inactive, have been suppressed in order that a few might be developed more fully and multiply through union with those of others. The very turmoil of the streets has something repulsive, something against which human nature rebels. The hundreds of thousands of all classes and ranks crowding past each other, are they not all human beings with the same qualities and powers, and with the same interest in being happy? And have they not, in the end, to seek happiness in the same way, by the same means? And still they crowd by one another as though they had nothing in common, nothing to do with one another, and their only agreement is the tacit one, that each keep to his own side of the pavement, so as not to delay the opposing streams of the crowd, while it occurs to no man to honour another with so much as a glance. The brutal indifference, the unfeeling isolation of each in his private interest becomes the more repellent and offensive, the more these individuals are crowded together, within a limited space. And, however much one may be aware that this isolation of the individual, this narrow self-seeking is the fundamental principle of our society everywhere, it is nowhere so shamelessly barefaced, so self-conscious as just here in the crowding of the great city. The dissolution of mankind into monads, of which each one has a separate principle, the world of atoms, is here carried out to its utmost extreme.

Hence it comes, too, that the social war, the war of each against all, is here openly declared. Just as in Stirner's recent book, people regard each other only as useful objects; each exploits the other, and the end of it all is, that the stronger treads the weaker under

* This applies to the time of sailing vessels. The Thames now is a dreary collection of ugly steamers.—F. E.

foot, and that the powerful few, the capitalists, seize everything for themselves, while to the weak many, the poor, scarcely a bare existence remains.

What is true of London, is true of Manchester, Birmingham, Leeds, is true of all great towns. Everywhere barbarous indifference, hard egotism on one hand, and nameless misery on the other, everywhere social warfare, every man's house in a state of siege, everywhere reciprocal plundering under the protection of the law, and all so shameless, so openly avowed that one shrinks before the consequences of our social state as they manifest themselves here undisguised, and can only wonder that the whole crazy fabric still hangs together.

Since capital, the direct or indirect control of the means of subsistence and production, is the weapon with which this social warfare is carried on, it is clear that all the disadvantages of such a state must fall upon the poor. For him no man has the slightest concern. Cast into the whirlpool, he must struggle through as well as he can. If he is so happy as to find work, *i.e.*, if the bourgeoisie does him the favour to enrich itself by means of him, wages await him which scarcely suffice to keep body and soul together; if he can get no work he may steal, if he is not afraid of the police, or starve, in which case the police will take care that he does so in a quiet and inoffensive manner. During my residence in England, at least twenty or thirty persons have died of simple starvation under the most revolting circumstances, and a jury has rarely been found possessed of the courage to speak the plain truth in the matter. Let the testimony of the witnesses be never so clear and unequivocal, the bourgeoisie, from which the jury is selected, always finds some backdoor through which to escape the frightful verdict, death from starvation. The bourgeoisie dare not speak the truth in these cases, for it would speak its own condemnation. But indirectly, far more than directly, many have died of starvation, where long continued want of proper nourishment has called forth fatal illness, when it has produced such debility that causes which might otherwise have remained inoperative, brought on severe illness and death. The English working-men call this "social murder," and accuse our whole society of perpetrating this crime perpetually. Are they wrong?

True, it is only individuals who starve, but what security has the working-man that it may not be his turn to-morrow? Who assures him employment, who vouches for it that, if for any reason or no reason his lord and master discharges him to-morrow, he can struggle along

with those dependent upon him, until he may find some one else "to give him bread"? Who guarantees that willingness to work shall suffice to obtain work, that uprightness, industry, thrift, and the rest of the virtues recommended by the bourgeoisie, are really his road to happiness? No one. He knows that he has something to-day, and that it does not depend upon himself whether he shall have something to-morrow. He knows that every breeze that blows, every whim of his employer, every bad turn of trade may hurl him back into the fierce whirlpool from which he has temporarily saved himself, and in which it is hard and often impossible to keep his head above water. He knows that, though he may have the means of living to-day, it is very uncertain whether he shall to-morrow.

Meanwhile, let us proceed to a more detailed investigation of the position in which the social war has placed the non-possessing class. Let us see what pay for his work society does give the working-man in the form of dwelling, clothing, food, what sort of subsistence it grants those who contribute most to the maintenance of society; and, first, let us consider the dwellings.

Every great city has one or more slums, where the working-class is crowded together. True, poverty often dwells in hidden alleys close to the palaces of the rich; but, in general, a separate territory has been assigned to it, where, removed from the sight of the happier classes, it may struggle along as it can. These slums are pretty equally arranged in all the great towns of England, the worst houses in the worst quarters of the towns; usually one or two-storied cottages in long rows, perhaps with cellars used as dwellings, almost always irregularly built. These houses of three or four rooms and a kitchen form, throughout England, some parts of London excepted, the general dwellings of the working-class. The streets are generally unpaved, rough, dirty, filled with vegetable and animal refuse, without sewers or gutters, but supplied with foul, stagnant pools instead. Moreover, ventilation is impeded by the bad, confused method of building of the whole quarter, and since many human beings here live crowded into a small space, the atmosphere that prevails in these workingmen's quarters may readily be imagined. Further, the streets serve as drying grounds in fine weather; lines are stretched across from house to house, and hung with wet clothing.

Let us investigate some of the slums in their order. London comes first, and in London the famous rookery of St. Giles which is now, at last, about to be penetrated by a couple of broad streets. St. Giles is in the midst of the most populous part of the town, surrounded by

broad, splendid avenues in which the gay world of London idles about, in the immediate neighbourhood of Oxford Street, Regent Street, of Trafalgar Square and the Strand. It is a disorderly collection of tall, three or four-storied houses, with narrow, crooked, filthy streets, in which there is quite as much life as in the great thoroughfares of the town, except that, here, people of the working-class only are to be seen. A vegetable market is held in the street, baskets with vegetables and fruits, naturally all bad and hardly fit to use, obstruct the sidewalk still further, and from these, as well as from the fish-dealers' stalls, arises a horrible smell. The houses are occupied from cellar to garret, filthy within and without, and their appearance is such that no human being could possibly wish to live in them. But all this is nothing in comparison with the dwellings in the narrow courts and alleys between the streets, entered by covered passages between the houses, in which the filth and tottering ruin surpass all description. Scarcely a whole window-pane can be found, the walls are crumbling, doorposts and window-frames loose and broken, doors of old boards nailed together, or altogether wanting in this thieves' quarter, where no doors are needed, there being nothing to steal. Heaps of garbage and ashes lie in all directions, and the foul liquids emptied before the doors gather in stinking pools. Here live the poorest of the poor, the worst paid workers with thieves and the victims of prostitution indiscriminately huddled together, the majority Irish, or of Irish extraction, and those who have not yet sunk in the whirlpool of moral ruin which surrounds them, sinking daily deeper, losing daily more and more of their power to resist the demoralising influence of want, filth, and evil surroundings.

Nor is St. Giles the only London slum. In the immense tangle of streets, there are hundreds and thousands of alleys and courts lined with houses too bad for anyone to live in, who can still spend anything whatsoever upon a dwelling fit for human beings. Close to the splendid houses of the rich such a lurking-place of the bitterest poverty may often be found. So, a short time ago, on the occasion of a coroner's inquest, a region close to Portman Square, one of the very respectable squares, was characterised as an abode "of a multitude of Irish demoralised by poverty and filth." So, too, may be found in streets, such as Long Acre and others, which, though not fashionable, are yet "respectable," a great number of cellar dwellings out of which puny children and half-starved, ragged women emerge into the light of day. In the immediate neighbourhood of Drury Lane Theatre, the second in London, are some of the worst streets of the whole metropolis, Charles, King, and Park Streets, in which the houses

are inhabited from cellar to garret exclusively by poor families. In the parishes of St. John and St. Margaret there lived in 1840, according to the *Journal of the Statistical Society*, 5,366 working-men's families in 5,294 "dwellings" (if they deserve the name!), men, women, and children thrown together without distinction of age or sex, 26,830 persons all told; and of these families three-fourths possessed but one room. In the aristocratic parish of St. George, Hanover Square, there lived, according to the same authority, 1,465 working-men's families, nearly 6,000 persons, under similar conditions, and here, too, more than two-thirds of the whole number crowded together at the rate of one family in one room. And how the poverty of these unfortunates, among whom even thieves find nothing to steal, is exploited by the property-holding class in lawful ways! The abominable dwellings in Drury Lane, just mentioned, bring in the following rents: two cellar dwellings, 3s.; one room, ground-floor, 4s.; second-storey, 4s. 6d.; third-floor, 4s.; garret-room, 3s. weekly, so that the starving occupants of Charles Street alone, pay the house-owners a yearly tribute of £2,000, and the 5,336 families above mentioned in Westminster, a yearly rent of £40,000.

The most extensive working-people's district lies east of the Tower in Whitechapel and Bethnal Green, where the greatest masses of London working-people live. Let us hear Mr. G. Alston, preacher of St. Philip's, Bethnal Green, on the condition of his parish. He says:

> It contains, 1,400 houses, inhabited by 2,795 families, or about 12,000 persons. The space upon which this large population dwells, is less than 400 yards (1,200 feet) square, and in this overcrowding it is nothing unusual to find a man, his wife, four or five children, and, sometimes, both grandparents, all in one single room, where they eat, sleep, and work. I believe that before the Bishop of London called attention to this most poverty-stricken parish, people at the West End knew as little of it as of the savages of Australia or the South Sea Isles. And if we make ourselves acquainted with these unfortunates, through personal observation, if we watch them at their scanty meal and see them bowed by illness and want of work, we shall find such a mass of helplessness and misery, that a nation like ours must blush that these things can be possible. I was rector near Huddersfield during the three years in which the mills were at their worst, but I have never seen such complete helplessness of the poor as since then in Bethnal Green. Not one father of a family in ten in the whole neighbourhood has other clothing than his working suit, and that is as bad and tattered as possible; many, indeed, have no other covering for the night than these rags, and no bed, save a sack of straw and shavings.

The foregoing description furnishes an idea of the aspect of the interior of the dwellings. But let us follow the English officials who occasionally stray thither, into one or two of these working-men's homes.

On the occasion of an inquest held Nov. 14th, 1843, by Mr. Carter, coroner for Surrey, upon the body of Ann Galway, aged 45 years, the newspapers related the following particulars concerning the deceased: She had lived at No. 3 White Lion Court, Bermondsey Street, London, with her husband and a nineteen-year-old son in a little room, in which neither a bedstead nor any other furniture was to be seen. She lay dead beside her son upon a heap of feathers which were scattered over her almost naked body, there being neither sheet nor coverlet. The feathers stuck so fast over the whole body that the physician could not examine the corpse until it was cleansed, and then found it starved and scarred from the bites of vermin. Part of the floor of the room was torn up, and the hole used by the family as a privy.

On Monday, Jan. 15th, 1844, two boys were brought before the police magistrate because, being in a starving condition, they had stolen and immediately devoured a half-cooked calf's foot from a shop. The magistrate felt called upon to investigate the case further, and received the following details from the policeman: The mother of the two boys was the widow of an ex-soldier, afterwards policeman, and had had a very hard time since the death of her husband, to provide for her nine children. She lived at No. 2 Pool's Place, Quaker Court, Spitalfields, in the utmost poverty. When the policeman came to her, he found her with six of her children literally huddled together in a little back room, with no furniture but two old rush-bottomed chairs with the seats gone, a small table with two legs broken, a broken cup, and a small dish. On the hearth was scarcely a spark of fire, and in one corner lay as many old rags as would fill a woman's apron, which served the whole family as a bed. For bed clothing they had only their scanty day clothing. The poor woman told him that she had been forced to sell her bedstead the year before to buy food. Her bedding she had pawned with the victualler for food. In short, everything had gone for food. The magistrate ordered the woman a considerable provision from the poor-box.

In February, 1844, Theresa Bishop, a widow 60 years old, was recommended, with her sick daughter, aged 26, to the compassion of the police magistrate in Marlborough Street. She lived at No. 5 Brown Street, Grosvenor Square, in a small back room no larger than a closet, in which there was not one single piece of furniture. In

one corner lay some rags upon which both slept; a chest served as table and chair. The mother earned a little by charring. The owner of the house said that they had lived in this way since May, 1843, had gradually sold or pawned everything that they had, and had still never paid any rent. The magistrate assigned them £1 from the poor-box.

I am far from asserting that *all* London working-people live in such want as the foregoing three families. I know very well that ten are somewhat better off, where one is so totally trodden under foot by society; but I assert that thousands of industrious and worthy people —far worthier and more to be respected than all the rich of London —do find themselves in a condition unworthy of human beings; and that every proletarian, everyone, without exception, is exposed to a similar fate without any fault of his own and in spite of every possible effort.

But in spite of all this, they who have some kind of a shelter are fortunate, fortunate in comparison with the utterly homeless. In London fifty thousand human beings get up every morning, not knowing where they are to lay their heads at night. The luckiest of this multitude, those who succeed in keeping a penny or two until evening, enter a lodging-house, such as abound in every great city, where they find a bed. But what a bed! These houses are filled with beds from cellar to garret, four, five, six beds in a room; as many as can be crowded in. Into every bed four, five, or six human beings are piled, as many as can be packed in, sick and well, young and old, drunk and sober, men and women, just as they come, indiscriminately. Then come strife, blows, wounds, or, if these bed-fellows agree, so much the worse; thefts are arranged and things done which our language, grown more humane than our deeds, refuses to record. And those who cannot pay for such a refuge? They sleep where they find a place, in passages, arcades, in corners where the police and the owners leave them undisturbed. A few individuals find their way to the refuges which are managed, here and there, by private charity, others sleep on the benches in the parks close under the windows of Queen Victoria. Let us hear the London *Times*:

> It appears from the report of the proceedings at Marlborough Street Police Court in our columns of yesterday, that there is an average number of 50 human beings of all ages, who huddle together in the parks every night, having no other shelter than what is supplied by the trees and a few hollows of the embankment. Of these, the majority are young girls who have been seduced from the country by the soldiers and turned loose on the world

in all the destitution of friendless penury, and all the recklessness of early vice.

This is truly horrible! Poor there must be everywhere. Indigence will find its way and set up its hideous state in the heart of a great and luxurious city. Amid the thousand narrow lanes and by-streets of a populous metropolis there must always, we fear, be much suffering—much that offends the eye—much that lurks unseen.

But that within the precincts of wealth, gaiety, and fashion, nigh the regal grandeur of St. James, close on the palatial splendour of Bayswater, on the confines of the old and new aristocratic quarters, in a district where the cautious refinement of modern design has refrained from creating one single tenement for poverty; which seems, as it were, dedicated to the exclusive enjoyment of wealth, that *there* want, and famine, and disease, and vice should stalk in all their kindred horrors, consuming body by body, soul by soul!

It is indeed a monstrous state of things! Enjoyment the most absolute, that bodily ease, intellectual excitement, or the more innocent pleasures of sense can supply to man's craving, brought in close contact with the most unmitigated misery! Wealth, from its bright saloons, laughing—an insolently heedless laugh—at the unknown wounds of want! Pleasure, cruelly but unconsciously mocking the pain that moans below! All contrary things mocking one another—all contrary, save the vice which tempts and the vice which is tempted!

But let all men remember this—that within the most courtly precincts of the richest city of God's earth, there may be found, night after night, winter after winter, women—young in years—old in sin and suffering—outcasts from society—ROTTING FROM FAMINE, FILTH, AND DISEASE. Let them remember this, and learn not to theorise but to act. God knows, there is much room for action nowadays.*

I have referred to the refuges for the homeless. How greatly overcrowded these are, two examples may show. A newly erected Refuge for the Houseless in Upper Ogle Street, that can shelter three hundred persons every night, has received since its opening, January 27th to March 17th, 1844, 2,740 persons for one or more nights; and, although the season was growing more favourable, the number of applicants in this, as well as in the asylums of Whitecross Street and Wapping, was strongly on the increase, and a crowd of the homeless had to be sent away every night for want of room. In another

* *Times*, Oct. 12th, 1843.

refuge, the Central Asylum in Playhouse Yard, there were supplied on an average 460 beds nightly, during the first three months of the year 1844, 6,681 persons being sheltered, and 96,141 portions of bread were distributed. Yet the committee of directors declare this institution began to meet the pressure of the needy to a limited extent only when the Eastern Asylum also was opened.

Let us leave London and examine the other great cities of the three kingdoms in their order. Let us take Dublin first, a city the approach to which from the sea is as charming as that of London is imposing. The Bay of Dublin is the most beautiful of the whole British Island Kingdom, and is even compared by the Irish with the Bay of Naples. The city, too, possesses great attractions, and its aristocratic districts are better and more tastefully laid out than those of any other British city. By way of compensation, however, the poorer districts of Dublin are among the most hideous and repulsive to be seen in the world. True, the Irish character, which, under some circumstances, is comfortable only in the dirt, has some share in this; but as we find thousands of Irish in every great city in England and Scotland, and as every poor population must gradually sink into the same uncleanliness, the wretchedness of Dublin is nothing specific, nothing peculiar to Dublin, but something common to all great towns. The poor quarters of Dublin are extremely extensive, and the filth, the uninhabitableness of the houses and the neglect of the streets, surpass all description. Some idea of the manner in which the poor are here crowded together may be formed from the fact that, in 1817, according to the report of the Inspector of Workhouses,* 1,318 persons lived in 52 houses with 390 rooms in Barral Street, and 1,997 persons in 71 houses with 393 rooms in and near Church Street; that:

> In this and the adjoining district there exists a multitude of foul courts and alleys; many cellars receive all their light through the door, while in not a few the inhabitants sleep upon the bare floor, though most of them possess bedsteads at least; Nicholson's Court, for example, contains twenty-eight wretched little rooms with 151 human beings in the greatest want, there being but two bedsteads and two blankets to be found in the whole court.

The poverty is so great in Dublin, that a single benevolent institution, the Mendicity Association, gives relief to 2,500 persons or one

* Quoted by Dr. W. P. Alison, F.R.S.E., Fellow and late President of the Royal College of Physicians, etc. etc. "Observations on the Management of the Poor in Scotland and its Effects on the Health of Great Towns." Edinburgh, 1840. The author is a religious Tory, brother of the historian, Archibald Alison.

per cent. of the population daily, receiving and feeding them for the day and dismissing them at night.

Dr. Alison describes a similar state of things in Edinburgh, whose superb situation, which has won it the title of the Modern Athens, and whose brilliant aristocratic quarter in the New Town, contrast strongly with the foul wretchedness of the poor in the Old Town. Alison asserts that this extensive quarter is as filthy and horrible as the worst district of Dublin, while the Mendicity Association would have as great a proportion of needy persons to assist in Edinburgh as in the Irish capital. He asserts, indeed, that the poor in Scotland, especially in Edinburgh and Glasgow, are worse off than in any other region of the three kingdoms, and that the poorest are not Irish, but Scotch. The preacher of the Old Church of Edinburgh, Dr. Lee, testified in 1836, before the Commission of Religious Instruction, that:

> He had never before seen such misery as in his parish, where the people were without furniture, without everything, two married couples often sharing one room. In a single day he had visited seven houses in which there was not a bed, in some of them not even a heap of straw. Old people of eighty years sleep on the board floor, nearly all slept in their day-clothes. In one cellar room he found two families from a Scotch country district; soon after their removal to the city two of the children had died, and a third was dying at the time of his visit. Each family had a filthy pile of straw lying in a corner; the cellar sheltered besides the two families a donkey, and was, moreover, so dark that it was impossible to distinguish one person from another by day. Dr. Lee declared that it was enough to make a heart of adamant bleed to see such misery in a country like Scotland.

In the Edinburgh *Medical and Surgical Journal*, Dr. Hennan reports a similar state of things. From a Parliamentary Report,* it is evident that in the dwellings of the poor of Edinburgh a want of cleanliness reigns, such as must be expected under these conditions. On the bedposts chickens roost at night, dogs and horses share the dwellings of human beings, and the natural consequence is a shocking stench, with filth and swarms of vermin. The prevailing construction of Edinburgh favours these atrocious conditions as far as possible. The Old Town is built upon both slopes of a hill, along the crest of which runs the High Street. Out of the High Street there open downwards multitudes

* "Report to the Home Secretary from the Poor-Law Commissioners on an Inquiry into the Sanitary Condition of the Labouring Classes in Great Britain with Appendix." Presented to both Houses of Parliament in July, 1842, 3 vols. Folio.

of narrow, crooked alleys, called wynds from their many turnings, and these wynds form the proletarian district of the city. The houses of the Scotch cities, in general, are five or six-storied buildings, like those of Paris, and in contrast with England where, so far as possible, each family has a separate house. The crowding of human beings upon a limited area is thus intensified.*

> These streets [says an English journal in an article upon the sanitary condition of the working-people in cities], are often so narrow that a person can step from the window of one house into that of its opposite neighbour, while the houses are piled so high, storey upon storey, that the light can scarcely penetrate into the court or alley that lies between. In this part of the city there are neither sewers nor other drains, nor even privies belonging to the houses. In consequence, all refuse, garbage, and excrements of at least 50,000 persons are thrown into the gutters every night, so that, in spite of all street sweeping, a mass of dried filth and foul vapours are created, which not only offend the sight and smell, but endanger the health of the inhabitants in the highest degree. Is it to be wondered at, that in such localities all considerations of health, morals, and even the most ordinary decency are utterly neglected? On the contrary, all who are more intimately acquainted with the condition of the inhabitants, will testify to the high degree which disease, wretchedness, and demoralisation have here reached. Society in such districts has sunk to a level indescribably low and hopeless. The houses of the poor are generally filthy, and are evidently never cleansed. They consist in most cases of a single room which, while subject to the worst ventilation, is yet usually kept cold by the broken and badly fitting windows, and is sometimes damp and partly below ground level, always badly furnished and thoroughly uncomfortable, a straw-heap often serving the whole family for a bed, upon which men and women, young and old, sleep in revolting confusion. Water can be had only from the public pumps, and the difficulty of obtaining it naturally fosters all possible filth.

In the other great seaport towns the prospect is no better. Liverpool, with all its commerce, wealth, and grandeur yet treats its workers with the same barbarity. A full fifth of the population, more than 45,000 human beings, live in narrow, dark, damp, badly-ventilated cellar dwellings, of which there are 7,862 in the city. Besides these cellar dwellings there are 2,270 courts, small spaces built up on all four sides and having but one entrance, a narrow, covered passageway, the whole ordinarily very dirty and inhabited exclusively by

* *The Artisan*, October, 1842.

proletarians. Of such courts we shall have more to say when we come to Manchester. In Bristol, on one occasion, 2,800 families were visited, of whom 46 per cent. occupied but one room each.

Precisely the same state of things prevails in the factory towns. In Nottingham there are in all 11,000 houses, of which between 7,000 and 8,000 are built back to back with a rear partiwall so that no through ventilation is possible, while a single privy usually serves for several houses. During an investigation made a short time since, many rows of houses were found to have been built over shallow drains covered only by the boards of the ground floor. In Leicester, Derby, and Sheffield, it is no better. Of Birmingham, the article above cited from the *Artisan* states:

> In the older quarters of the city there are many bad districts, filthy and neglected, full of stagnant pools and heaps of refuse. Courts are very numerous in Birmingham, reaching two thousand, and containing the greater number of the working-people of the city. These courts are usually narrow, muddy, badly ventilated, ill-drained, and lined with eight to twenty houses, which by reason of having their rear walls in common, can usually be ventilated from one side only. In the background, within the court, there is usually an ash heap or something of the kind, the filth of which cannot be described. It must, however, be observed that the newer courts are more sensibly built and more decently kept, and that even in the old ones, the cottages are much less crowded than in Manchester and Liverpool, wherefore Birmingham shows even during the reign of an epidemic a far smaller mortality than, for instance, Wolverhampton, Dudley, and Bilston, only a few miles distant. Cellar dwellings are unknown, too, in Birmingham, though a few cellars are misused as workrooms. The lodging-houses for proletarians are rather numerous (over four hundred), chiefly in courts in the heart of the town. They are nearly all disgustingly filthy and ill-smelling, the refuge of beggars, thieves, tramps, and prostitutes, who eat, drink, smoke, and sleep here without the slightest regard to comfort or decency in an atmosphere endurable to these degraded beings only.

Glasgow is in many respects similar to Edinburgh, possessing the same wynds, the same tall houses. Of this city the *Artisan* observes:

> The working-class forms here some 78% of the whole population (about 300,000), and lives in parts of the city which exceed in wretchedness and squalor the lowest nooks of St. Giles and Whitechapel, the Liberties of Dublin, the Wynds of Edinburgh. There are numbers of such localities in the heart of the city, south of the Trongate, westward from the Saltmarket, in Calton and off the

> High Street, endless labyrinths of lanes or wynds into which open at almost every step, courts or blind alleys, formed by ill-ventilated, high-piled, waterless, and dilapidated houses. These are literally swarming with inhabitants. They contain three or four families upon each floor, perhaps twenty persons. In some cases each storey is let out in sleeping places, so that fifteen to twenty persons are packed, one on top of the other, I cannot say accommodated, in a single room. These districts shelter the poorest, most depraved, and worthless members of the community, and may be regarded as the sources of those frightful epidemics which, beginning here, spread desolation over Glasgow.

Let us hear how J. C. Symonds, Government Commissioner for the investigation of the condition of the hand-weavers, describes these portions of the city:*

> I have seen wretchedness in some of its worse phases both here and upon the Continent, but until I visited the wynds of Glasgow I did not believe that so much crime, misery, and disease could exist in any civilised country. In the lower lodging-houses ten, twelve, sometimes twenty persons of both sexes, all ages and various degrees of nakedness, sleep indiscriminately huddled together upon the floor. These dwellings are usually so damp, filthy, and ruinous, that no one could wish to keep his horse in one of them.

And in another place:

> The wynds of Glasgow contain a fluctuating population of fifteen to thirty thousand human beings. This quarter consists wholly of narrow alleys and square courts, in the middle of every one of which there lies a dung heap. Revolting as was the outward appearance of these courts, I was yet not prepared for the filth and wretchedness within. In some of the sleeping-places which we visited at night (the Superintendent of Police, Captain Miller, and Symonds) we found a complete layer of human beings stretched upon the floor, often fifteen to twenty, some clad, others naked, men and women indiscriminately. Their bed was a litter of mouldy straw, mixed with rags. There was little or no furniture, and the only thing which gave these dens any shimmer of habitableness was a fire upon the hearth. Theft and prostitution form the chief means of subsistence of this population. No one seemed to take the trouble to cleanse this Augean stable, this Pandemo-

* "Arts and Artisan at Home and Abroad," by J. C. Symonds, Edinburgh, 1839. The author, as it seems, himself a Scotchman, is a liberal, and consequently fanatically opposed to every independent movement of workingmen. The passages here cited are to be found p. 116 *et seq.*

nium, this tangle of crime, filth, and pestilence in the centre of the second city of the kingdom. An extended examination of the lowest districts of other cities never revealed anything half so bad, either in intensity of moral and physical infection, nor in comparative density of population. In this quarter most of the houses have been declared by the Court of Guild ruinous and unfit for habitation, but precisely these are the most densely populated, because, according to the law, no rent can be demanded for them.

The great manufacturing district in the centre of the British Islands, the thickly peopled stretch of West Yorkshire and South Lancashire, with its numerous factory towns, yields nothing to the other great manufacturing centres. The woollen district of the West Riding of Yorkshire is a charming region, a beautiful green hill country, whose elevations grow more rugged towards the West until they reach their highest point in the bold ridge of Blackstone Edge, the watershed between the Irish Sea and the German Ocean. The valleys of the Aire, along which stretches Leeds, and of the Calder, through which the Manchester-Leeds railway runs, are among the most attractive in England, and are strewn in all directions with the factories, villages, and towns. The houses of rough grey stone look so neat and clean in comparison with the blackened brick buildings of Lancashire, that it is a pleasure to look at them. But on coming into the towns themselves, one finds little to rejoice over. Leeds lies as the *Artisan* describes it, and as I found confirmed upon examination: "on a gentle slope that descends into the valley of the Aire. This stream flows through the city for about a mile-and-a-half and is exposed to violent floods during thaws or heavy rain. The higher western portions of the city are clean, for such a large town. But the low-lying districts along the river and its tributary becks are narrow, dirty, and enough in themselves to shorten the lives of the inhabitants, especially of little children. Added to this, the disgusting state of the working-men's districts about Kirkgate, Marsh Lane, Cross Street and Richmond Road, which is chiefly attributable to their unpaved, drainless streets, irregular architecture, numerous courts and alleys, and total lack of the most ordinary means of cleanliness, all this taken together is explanation enough of the excessive mortality in these unhappy abodes of filthy misery. In consequence of the overflows of the Aire" (which, it must be added, like all other rivers in the service of manufacture, flows into the city at one end clear and transparent, and flows out at the other end thick, black, and foul, smelling of all possible refuse), "the houses and cellars are often so full of water that

they have to be pumped out. And at such times the water rises, even where there are sewers, out of them into cellars,* engenders miasmatic vapours strongly impregnated with sulphuretted hydrogen, and leaves a disgusting residuum highly injurious to health. During the spring-floods of 1839 the action of such a choking of the sewers was so injurious, that, according to the report of the Registrar of Births and Deaths for this part of the town, there were three deaths to two births, whereas in the same three months, in every other part of the town, there were three births to two deaths. Other thickly populated districts are without any sewers whatsoever, or so badly provided as to derive no benefit from them. In some rows of houses the cellars are seldom dry; in certain districts there are several streets covered with soft mud a foot deep. The inhabitants have made vain attempts from time to time to repair these streets with shovel-fuls of cinders, but in spite of all such attempts, dung-heaps, and pools of dirty water emptied from the houses, fill all the holes until wind and sun dry them up.† An ordinary cottage in Leeds occupies not more than five yards square of land, and usually consists of a cellar, a living room, and one sleeping-room. These contracted dwellings, filled day and night with human beings, are another point dangerous alike to the morals and the health of the inhabitants." And how greatly these cottages are crowded, the Report on the Health of the Working-Classes, quoted above, bears testimony: "In Leeds we found brothers and sisters, and lodgers of both sexes, sharing the parents' sleeping-room, whence arise consequences at the contemplation of which human feeling shudders."

So, too, Bradford, which, but seven miles from Leeds at the junction of several valleys, lies upon the banks of a small, coal-black, foul-smelling stream. On week-days the town is enveloped in a grey cloud of coal smoke, but on a fine Sunday it offers a superb picture, when viewed from the surrounding heights. Yet within reigns the same filth and discomfort as in Leeds. The older portions of the town are built upon steep hillsides, and are narrow and irregular. In the lanes, alleys, and courts lie filth and *debris* in heaps; the houses are ruinous, dirty, and miserable, and in the immediate vicinity of the river and the valley bottom I found many a one, whose ground-floor, half-buried in the hillside, was totally abandoned. In general, the portions of the valley bottom in which working-men's cottages have

* It must be borne in mind that these cellars are not mere storing-rooms for rubbish, but dwellings of human beings.

† Compare Report of the Town Council in the Statistical Journal, vol. 2, p. 404.

crowded between the tall factories, are among the worst built and dirtiest districts of the whole town. In the newer portions of this, as of every other factory town, the cottages are more regular, being built in rows, but they share here, too, all the evils incident to the customary method of providing working-men's dwellings, evils of which we shall have occasions to speak more particularly in discussing Manchester. The same is true of the remaining towns of the West Riding, especially of Barnsley, Halifax and Huddersfield. The last named, the handsomest by far of all the factory towns of Yorkshire and Lancashire, by reason of its charming situation and modern architecture, has yet its bad quarter; for a committee appointed by a meeting of citizens to survey the town, reported August 5th, 1844: "It is notorious that in Huddersfield whole streets and many lanes and courts are neither paved nor supplied with sewers nor other drains; that in them refuse, *debris,* and filth of every sort lies accumulating, festers and rots, and that, nearly everywhere, stagnant water accumulates in pools, in consequence of which the adjoining dwellings must inevitably be bad and filthy, so that in such places diseases arise and threaten the health of the whole town."

If we cross Blackstone Edge or penetrate it with the railroad, we enter upon that classic soil on which English manufacture has achieved its masterwork and from which all labour movements emanate, namely, South Lancashire with its central city Manchester. Again we have beautiful hill country, sloping gently from the watershed westwards towards the Irish Sea, with the charming green valleys of the Ribble, the Irwell, the Mersey, and their tributaries, a country which, a hundred years ago chiefly swamp land, thinly populated, is now sown with towns and villages, and is the most densely populated strip of country in England. In Lancashire, and especially in Manchester, English manufacture finds at once its starting point and its centre. The Manchester Exchange is the thermometer for all the fluctuations of trade. The modern art of manufacture has reached its perfection in Manchester. In the cotton industry of South Lancashire, the application of the forces of Nature, the superseding of hand labour by machinery (especially by the power-loom and the self-acting mule), and the division of labour, are seen at the highest point; and, if we recognise in these three elements that which is characteristic of modern manufacture, we must confess that the cotton industry has remained in advance of all other branches of industry from the beginning down to the present day. The effects of modern manufacture upon the working-class must necessarily develop here most freely and perfectly, and the manufacturing proletariat pre-

sent itself in its fullest classic perfection. The degradation to which the application of steam-power, machinery and the division of labour reduce the working-man, and the attempts of the proletariat to rise above this abasement, must likewise be carried to the highest point and with the fullest consciousness. Hence because Manchester is the classic type of a modern manufacturing town, and because I know it as intimately as my own native town, more intimately than most of its residents know it, we shall make a longer stay here.

The towns surrounding Manchester vary little from the central city, so far as the working-people's quarters are concerned, except that the working-class forms, if possible, a larger proportion of their population. These towns are purely industrial and conduct all their business through Manchester upon which they are in every respect dependent, whence they are inhabited only by working-men and petty tradesmen, while Manchester has a very considerable commercial population, especially of commission and "respectable" retail dealers. Hence Bolton, Preston, Wigan, Bury, Rochdale, Middleton, Heywood, Oldham, Ashton, Stalybridge, Stockport, etc., though nearly all towns of thirty, fifty, seventy to ninety thousand inhabitants, are almost wholly working-people's districts, interspersed only with factories, a few thoroughfares lined with shops, and a few lanes along which the gardens and houses of the manufacturers are scattered like villas. The towns themselves are badly and irregularly built with foul courts, lanes, and back alleys, reeking of coal smoke, and especially dingy from the originally bright red brick, turned black with time, which is here the universal building material. Cellar dwellings are general here; wherever it is in any way possible, these subterranean dens are constructed, and a very considerable portion of the population dwells in them.

Among the worst of these towns after Preston and Oldham is Bolton, eleven miles north-west of Manchester. It has, so far as I have been able to observe in my repeated visits, but one main street, a very dirty one, Deansgate, which serves as a market, and is even in the finest weather a dark, unattractive hole in spite of the fact that, except for the factories, its sides are formed by low one and two-storied houses. Here, as everywhere, the older part of the town is especially ruinous and miserable. A dark-coloured body of water, which leaves the beholder in doubt whether it is a brook or a long string of stagnant puddles, flows through the town and contributes its share to the total pollution of the air, by no means pure without it.

There is Stockport, too, which lies on the Cheshire side of the Mersey, but belongs nevertheless to the manufacturing district of

Manchester. It lies in a narrow valley along the Mersey, so that the streets slope down a steep hill on one side and up an equally steep one on the other, while the railway from Manchester to Birmingham passes over a high viaduct above the city and the whole valley. Stockport is renowned throughout the entire district as one of the duskiest, smokiest holes, and looks, indeed, especially when viewed from the viaduct, excessively repellent. But far more repulsive are the cottages and cellar dwellings of the working-class, which stretch in long rows through all parts of the town from the valley bottom to the crest of the hill. I do not remember to have seen so many cellars used as dwellings in any other town of this district.

A few miles north-east of Stockport is Ashton-under-Lyne, one of the newest factory towns of this region. It stands on the slope of a hill at the foot of which are the canal and the river Tame, and is, in general, built on the newer, more regular plan. Five or six parallel streets stretch along the hill intersected at right angles by others leading down into the valley. By this method, the factories would be excluded from the town proper, even if the proximity of the river and the canal-way did not draw them all into the valley where they stand thickly crowded, belching forth black smoke from their chimneys. To this arrangement Ashton owes a much more attractive appearance than that of most factory towns; the streets are broad and cleaner, the cottages look new, bright red, and comfortable. But the modern system of building cottages for working-men has its own disadvantages; every street has its concealed back lane to which a narrow paved path leads, and which is all the dirtier. And, although I saw no buildings, except a few on entering, which could have been more than fifty years old, there are even in Ashton streets in which the cottages are getting bad, where the bricks in the house-corners are no longer firm but shift about, in which the walls have cracks and will not hold the chalk whitewash inside; streets, whose dirty, smoke-begrimed aspect is nowise different from that of the other towns of the district, except that in Ashton, this is the exception, not the rule.

A mile eastward lies Stalybridge, also on the Tame. In coming over the hill from Ashton, the traveller has, at the top, both right and left, fine large gardens with superb villa-like houses in their midst, built usually in the Elizabethan style, which is to the Gothic precisely what the Anglican Church is to the Apostolic Roman Catholic. A hundred paces farther and Stalybridge shows itself in the valley, in sharp contrast with the beautiful country seats, in sharp contrast even with the modest cottages of Ashton! Stalybridge lies in a narrow, crooked ravine, much narrower even than the valley at Stockport,

and both sides of this ravine are occupied by an irregular group of cottages, houses, and mills. On entering, the very first cottages are narrow, smoke-begrimed, old and ruinous; and as the first houses, so the whole town. A few streets lie in the narrow valley bottom, most of them run criss-cross, pell-mell, up hill and down, and in nearly all the houses, by reason of this sloping situation, the ground floor is half-buried in the earth; and what multitudes of courts, back lanes, and remote nooks arise out of this confused way of building may be seen from the hills, whence one has the town here and there, in a bird's-eye view almost at one's feet. Add to this the shocking filth, and the repulsive effect of Stalybridge, in spite of its pretty surroundings, may be readily imagined.

But enough of these little towns. Each has its own peculiarities, but in general, the working-people live in them just as in Manchester. Hence I have especially sketched only their peculiar construction, and would observe, that all more general observations as to the condition of the labouring population in Manchester are fully applicable to these surrounding towns as well.

Manchester lies at the foot of the southern slope of a range of hills, which stretch hither from Oldham, their last peak, Kersallmoor, being at once the racecourse and the Mons Sacer of Manchester. Manchester proper lies on the left bank of the Irwell, between that stream and the two smaller ones, the Irk and the Medlock, which here empty into the Irwell. On the left bank of the Irwell, bounded by a sharp curve of the river, lies Salford, and farther westward Pendleton; northward from the Irwell lie Upper and Lower Broughton; northward of the Irk, Cheetham Hill; south of the Medlock lies Hulme; farther east Chorlton on Medlock; still farther, pretty well to the east of Manchester, Ardwick. The whole assemblage of buildings is commonly called Manchester, and contains about four hundred thousand inhabitants, rather more than less. The town itself is peculiarly built, so that a person may live in it for years, and go in and out daily without coming into contact with a working-people's quarter or even with workers, that is, so long as he confines himself to his business or to pleasure walks. This arises chiefly from the fact, that by unconscious tacit agreement, as well as with outspoken conscious determination, the working-people's quarters are sharply separated from the sections of the city reserved for the middle-class; or, if this does not succeed, they are concealed with the cloak of charity. Manchester contains, at its heart, a rather extended commercial district, perhaps half a mile long and about as broad, and consisting almost wholly of offices and warehouses. Nearly the whole district is abandoned by dwellers, and

is lonely and deserted at night; only watchmen and policemen traverse its narrow lanes with their dark lanterns. This district is cut through by certain main thoroughfares upon which the vast traffic concentrates, and in which the ground level is lined with brilliant shops. In these streets the upper floors are occupied, here and there, and there is a good deal of life upon them until late at night. With the exception of this commercial district, all Manchester proper, all Salford and Hulme, a great part of Pendleton and Chorlton, two-thirds of Ardwick, and single stretches of Cheetham Hill and Broughton are all unmixed working-people's quarters, stretching like a girdle, averaging a mile and a half in breadth, around the commercial district. Outside, beyond this girdle, lives the upper and middle bourgeoisie, the middle bourgeoisie in regularly laid out streets in the vicinity of the working quarters, especially in Chorlton and the lower lying portions of Cheetham Hill; the upper bourgeoisie in remoter villas with gardens in Chorlton and Ardwick, or on the breezy heights of Cheetham Hill, Broughton, and Pendleton, in free, wholesome country air, in fine, comfortable homes, passed once every half or quarter hour by omnibuses going into the city. And the finest part of the arrangement is this, that the members of this money aristocracy can take the shortest road through the middle of all the labouring districts to their places of business, without ever seeing that they are in the midst of the grimy misery that lurks to the right and the left. For the thoroughfares leading from the Exchange in all directions out of the city are lined, on both sides, with an almost unbroken series of shops, and are so kept in the hands of the middle and lower bourgeoisie, which, out of self-interest, cares for a decent and cleanly external appearance and *can* care for it. True, these shops bear some relation to the districts which lie behind them, and are more elegant in the commercial and residential quarters than when they hide grimy working-men's dwellings; but they suffice to conceal from the eyes of the wealthy men and women of strong stomachs and weak nerves the misery and grime which form the complement of their wealth. So, for instance, Deansgate, which leads from the Old Church directly southward, is lined first with mills and warehouses, then with second-rate shops and alehouses; farther south, when it leaves the commercial district, with less inviting shops, which grow dirtier and more interrupted by beerhouses and gin palaces the farther one goes, until at the southern end the appearance of the shops leaves no doubt that workers and workers only are their customers. So Market Street running southeast from the Exchange; at first brilliant shops of the best sort, with counting-houses or warehouses above; in the continuation, Piccadilly,

immense hotels and warehouses; in the farther continuation, London Road, in the neighbourhood of the Medlock, factories, beerhouses, shops for the humbler bourgeoisie and the working population; and from this point onward, large gardens and villas of the wealthier merchants and manufacturers. In this way any one who knows Manchester can infer the adjoining districts, from the appearance of the thoroughfare, but one is seldom in a position to catch from the street a glimpse of the real labouring districts. I know very well that this hypocritical plan is more or less common to all great cities; I know, too, that the retail dealers are forced by the nature of their business to take possession of the great highways; I know that there are more good buildings than bad ones upon such streets everywhere, and that the value of land is greater near them than in remoter districts; but at the same time I have never seen so systematic a shutting out of the working-class from the thoroughfares, so tender a concealment of everything which might affront the eye and the nerves of the bourgeoisie, as in Manchester. And yet, in other respects, Manchester is less built according to a plan, after official regulations, is more an outgrowth of accident, than any other city; and when I consider in this connection the eager assurances of the middle-class, that the working-class is doing famously, I cannot help feeling that the liberal manufacturers, the "Big Wigs" of Manchester, are not so innocent after all, in the matter of this sensitive method of construction.

I may mention just here that the mills almost all adjoin the rivers or the different canals that ramify throughout the city, before I proceed at once to describe the labouring quarters. First of all, there is the old town of Manchester, which lies between the northern boundary of the commercial district and the Irk. Here the streets, even the better ones, are narrow and winding, as Todd Street, Long Millgate, Withy Grove, and Shude Hill, the houses dirty, old, and tumbledown, and the construction of the side streets utterly horrible. Going from the Old Church to Long Millgate, the stroller has at once a row of old-fashioned houses at the right, of which not one has kept its original level; these are remnants of the old pre-manufacturing Manchester, whose former inhabitants have removed with their descendants into better-built districts, and have left the houses, which were not good enough for them, to a population strongly mixed with Irish blood. Here one is in an almost undisguised working-men's quarter, for even the shops and beerhouses hardly take the trouble to exhibit a trifling degree of cleanliness. But all this is nothing in comparison with the courts and lanes which lie behind, to which access can be gained only through covered passages, in which no two human beings

can pass at the same time. Of the irregular cramming together of dwellings in ways which defy all rational plan, of the tangle in which they are crowded literally one upon the other, it is impossible to convey an idea. And it is not the buildings surviving from the old times of Manchester which are to blame for this; the confusion has only recently reached its height when every scrap of space left by the old way of building has been filled up and patched over until not a foot of land is left to be further occupied.

The south bank of the Irk is here very steep and between fifteen and thirty feet high. On this declivitous hillside there are planted three rows of houses, of which the lowest rise directly out of the river, while the front walls of the highest stand on the crest of the hill in Long Millgate. Among them are mills on the river, in short, the method of construction is as crowded and disorderly here as in the lower part of Long Millgate. Right and left a multitude of covered passages lead from the main street into numerous courts, and he who turns in thither gets into a filth and disgusting grime, the equal of which is not to be found—especially in the courts which lead down to the Irk, and which contain unqualifiedly the most horrible dwellings which I have yet beheld. In one of these courts there stands directly at the entrance, at the end of the covered passage, a privy without a door, so dirty that the inhabitants can pass into and out of the court only by passing through foul pools of stagnant urine and excrement. This is the first court on the Irk above Ducie Bridge—in case any one should care to look into it. Below it on the river there are several tanneries which fill the whole neighbourhood with the stench of animal putrefaction. Below Ducie Bridge the only entrance to most of the houses is by means of narrow, dirty stairs and over heaps of refuse and filth. The first court below Ducie Bridge, known as Allen's Court, was in such a state at the time of the cholera that the sanitary police ordered it evacuated, swept, and disinfected with chloride of lime. Dr. Kay gives a terrible description of the state of this court at that time.* Since then, it seems to have been partially torn away and rebuilt; at least looking down from Ducie Bridge, the passer-by sees several ruined walls and heaps of débris with some newer houses. The view from this bridge, mercifully concealed from mortals of small stature by a parapet as high as a man, is characteristic for the

* "The Moral and Physical Condition of the Working-Classes Employed in the Cotton Manufacture in Manchester." By James Ph. Kay, M.D. 2nd ed., 1832.

Dr. Kay confuses the working-class in general with the factory workers, otherwise an excellent pamphlet.

whole district. At the bottom flows, or rather stagnates, the Irk, a narrow, coal-black, foul-smelling stream, full of débris and refuse, which it deposits on the shallower right bank. In dry weather, a long string of the most disgusting, blackish-green, slime pools are left standing on this bank, from the depths of which bubbles of miasmatic gas constantly arise and give forth a stench unendurable even on the bridge forty or fifty feet above the surface of the stream. But besides this, the stream itself is checked every few paces by high weirs, behind which slime and refuse accumulate and rot in thick masses. Above the bridge are tanneries, bonemills, and gasworks, from which all drains and refuse find their way into the Irk, which receives further the contents of all the neighbouring sewers and privies. It may be easily imagined, therefore, what sort of residue the stream deposits. Below the bridge you look upon the piles of débris, the refuse, filth, and offal from the courts on the steep left bank; here each house is packed close behind its neighbour and a piece of each is visible, all black, smoky, crumbling, ancient, with broken panes and window frames. The background is furnished by old barrack-like factory buildings. On the lower right bank stands a long row of houses and mills; the second house being a ruin without a roof, piled with débris; the third stands so low that the lowest floor is uninhabitable, and therefore without windows or doors. Here the background embraces the pauper burial-ground, the station of the Liverpool and Leeds railway, and, in the rear of this, the Workhouse, the "Poor-Law Bastille" of Manchester, which, like a citadel, looks threateningly down from behind its high walls and parapets on the hilltop, upon the working-people's quarter below.

Above Ducie Bridge, the left bank grows more flat and the right bank steeper, but the condition of the dwellings on both banks grows worse rather than better. He who turns to the left here from the main street, Long Millgate, is lost; he wanders from one court to another, turns countless corners, passes nothing but narrow, filthy nooks and alleys, until after a few minutes he has lost all clue, and knows not whither to turn. Everywhere half or wholly ruined buildings, some of them actually uninhabited, which means a great deal here; rarely a wooden or stone floor to be seen in the houses, almost uniformly broken, ill-fitting windows and doors, and a state of filth! Everywhere heaps of débris, refuse, and offal; standing pools for gutters, and a stench which alone would make it impossible for a human being in any degree civilised to live in such a district. The newly-built extension of the Leeds railway, which crosses the Irk here, has swept away some of these courts and lanes, laying others completely

open to view. Immediately under the railway bridge there stands a court, the filth and horrors of which surpass all the others by far, just because it was hitherto so shut off, so secluded that the way to it could not be found without a good deal of trouble. I should never have discovered it myself, without the breaks made by the railway, though I thought I knew this whole region thoroughly. Passing along a rough bank, among stakes and washing-lines, one penetrates into this chaos of small one-storied, one-roomed huts, in most of which there is no artificial floor; kitchen, living and sleeping-room all in one. In such a hole, scarcely five feet long by six broad, I found two beds —and such bedsteads and beds!—which, with a staircase and chimney-place, exactly filled the room. In several others I found absolutely nothing, while the door stood open, and the inhabitants leaned against it. Everywhere before the doors refuse and offal; that any sort of pavement lay underneath could not be seen but only felt, here and there, with the feet. This whole collection of cattle-sheds for human beings was surrounded on two sides by houses and a factory, and on the third by the river, and besides the narrow stair up the bank, a narrow doorway alone led out into another almost equally ill-built, ill-kept labyrinth of dwellings.

Enough! The whole side of the Irk is built in this way, a planless, knotted chaos of houses, more or less on the verge of uninhabitableness, whose unclean interiors fully correspond with their filthy external surroundings. And how could the people be clean with no proper opportunity for satisfying the most natural and ordinary wants? Privies are so rare here that they are either filled up every day, or are too remote for most of the inhabitants to use. How can people wash when they have only the dirty Irk water at hand, while pumps and water pipes can be found in decent parts of the city alone? In truth, it cannot be charged to the account of these helots of modern society if their dwellings are not more cleanly than the pigsties which are here and there to be seen among them. The landlords are not ashamed to let dwellings like the six or seven cellars on the quay directly below Scotland Bridge, the floors of which stand at least two feet below the low-water level of the Irk that flows not six feet away from them; or like the upper floor of the corner-house on the opposite shore directly above the bridge, where the ground floor, utterly uninhabitable, stands deprived of all fittings for doors and windows, a case by no means rare in this region, when this open ground floor is used as a privy by the whole neighbourhood for want of other facilities!

If we leave the Irk and penetrate once more on the opposite side

from Long Millgate into the midst of the working-men's dwellings, we shall come into a somewhat newer quarter, which stretches from St. Michael's Church to Withy Grove and Shude Hill. Here there is somewhat better order. In place of the chaos of buildings, we find at least long straight lanes and alleys or courts, built according to a plan and usually square. But if, in the former case, every house was built according to caprice, here each lane and court is so built, without reference to the situation of the adjoining ones. The lanes run now in this direction, now in that, while every two minutes the wanderer gets into a blind alley, or, on turning a corner, finds himself back where he started from; certainly no one who has not lived a considerable time in this labyrinth can find his way through it.

If I may use the word at all in speaking of this district, the ventilation of these streets and courts is, in consequence of this confusion, quite as imperfect as in the Irk region; and if this quarter may, nevertheless, be said to have some advantage over that of the Irk, the houses being newer and the streets occasionally having gutters, nearly every house has, on the other hand, a cellar dwelling, which is rarely found in the Irk district, by reason of the greater age and more careless construction of the houses. As for the rest, the filth, débris, and offal heaps, and the pools in the streets are common to both quarters, and in the district now under discussion, another feature most injurious to the cleanliness of the inhabitants, is the multitude of pigs walking about in all the alleys, rooting into the offal heaps, or kept imprisoned in small pens. Here, as in most of the working-men's quarters of Manchester, the pork-raisers rent the courts and build pig-pens in them. In almost every court one or even several such pens may be found, into which the inhabitants of the court throw all refuse and offal, whence the swine grow fat; and the atmosphere, confined on all four sides, is utterly corrupted by putrefying animal and vegetable substances. Through this quarter, a broad and measurably decent street has been cut, Millers Street, and the background has been pretty successfully concealed. But if any one should be led by curiosity to pass through one of the numerous passages which lead into the courts, he will find this piggery repeated at every twenty paces.

Such is the Old Town of Manchester, and on re-reading my description, I am forced to admit that instead of being exaggerated, it is far from black enough to convey a true impression of the filth, ruin, and uninhabitableness, the defiance of all considerations of cleanliness, ventilation, and health which characterise the construction of this single district, containing at least twenty to thirty thousand in-

habitants. And such a district exists in the heart of the second city of England, the first manufacturing city of the world. If any one wishes to see in how little space a human being can move, how little air—and *such* air!—he can breathe, how little of civilisation he may share and yet live, it is only necessary to travel hither. True, this is the *Old* Town, and the people of Manchester emphasise the fact whenever any one mentions to them the frightful condition of this Hell upon Earth; but what does that prove? Everything which here arouses horror and indignation is of recent origin, belongs to the *industrial epoch*. The couple of hundred houses, which belong to old Manchester, have been long since abandoned by their original inhabitants; the industrial epoch alone has crammed into them the swarms of workers whom they now shelter; the industrial epoch alone has built up every spot between these old houses to win a covering for the masses whom it has conjured hither from the agricultural districts and from Ireland; the industrial epoch alone enables the owners of these cattle-sheds to rent them for high prices to human beings, to plunder the poverty of the workers, to undermine the health of thousands, in order that they *alone*, the owners, may grow rich. In the industrial epoch alone has it become possible that the worker scarcely freed from feudal servitude could be used as mere material, a mere chattel; that he must let himself be crowded into a dwelling too bad for every other, which he for his hard-earned wages buys the right to let go utterly to ruin. This manufacture has achieved, which without these workers, this poverty, this slavery could not have lived. True, the original construction of this quarter was bad, little good could have been made out of it; but, have the landowners, has the municipality done anything to improve it when rebuilding? On the contrary, wherever a nook or corner was free, a house has been run up; where a superfluous passage remained, it has been built up; the value of land rose with the blossoming out of manufacture, and the more it rose, the more madly was the work of building up carried on, without reference to the health or comfort of the inhabitants, with sole reference to the highest possible profit on the principle that *no hole is so bad but that some poor creature must take it who can pay for nothing better*. However, it is the Old Town, and with this reflection the bourgeoisie is comforted. Let us see, therefore, how much better it is in the New Town.

Arnold Toynbee

1852–1883

Arnold Toynbee's promising career as a political economist and a social reformer was terminated by his early death at the age of thirty. His major contribution was his Lectures on the Industrial Revolution, *which appeared in 1884. Apparently the first to coin the term itself, Toynbee in these lectures originated the treatment of the industrial transformation of 1760-1832 as a single historical phenomenon, susceptible to unified treatment. Statistical research and historical discoveries have outmoded Toynbee's evidence, weakened his conclusions about the damage done to the lives of the working people of England by industrial change, and cast some doubt on the very usefulness of the central notion of industrial revolution itself. Nevertheless, as his nephew the present Arnold Toynbee commented in the preface to a recent reprint of his uncle's* Lectures, *". . . as a masterly first reconnaissance of a very important field of historical study, this pioneer work by a young man is still as much alive as ever it was."*

Toynbee preferred historical to analytical investigation not because he considered deductive reasoning invalid. He did fear that its practitioners might come to claim universal and eternal truth for generalizations that had only limited applicability. His criticism of Ricardo is characteristically temperate:

> *A logical artifice became the accepted picture of the real world. Not that Ricardo himself, a benevolent and kind-hearted man, could have wished or supposed, had he asked himself the question, that the world of his treatise was actually the world he lived in; but he unconsciously fell into the habit of regarding laws which were those only of that society which he had created in his study for purposes of analysis as applicable to the complex society really existing around him.*

Fair enough.

Some critics of the historical approach feared that it might be used in the interests of conservative resistance to change. Toynbee, in taking note of this charge, refuted it: "The Historical method is often deemed conservative, because it traces the gradual and stately growth of our venerable institutions; but it may exercise a precisely opposite influence by showing the gross injustice which was blindly perpetuated during this growth." Certainly, Toynbee placed the power of his personality in the demonstration of historical injustice and the necessity of contemporary amelioration of the plight of history's victims.

The selection is from Lectures on the Industrial Revolution, *first published in 1884 (reprinted by the Beacon Press, 1956), pp. 1-6.*

I Introductory

The subject of these lectures is the Industrial and Agrarian Revolution at the end of the eighteenth and beginning of the nineteenth centuries. The course is divided into three parts. The first deals with Adam Smith and the England of his time. It will describe England on the eve of the Industrial Revolution, and the system of regulation and protection of industry as it existed in 1760. It will give also an outline of Adam Smith's book, its aims and character, and especially his theory of free trade. The second part will group itself round the work of Malthus, who dealt not so much with the causes of wealth as with the causes of poverty, with the distribution of wealth rather than with its production. It will describe England in the midst of the Industrial Revolution, and will inquire into the problem of pauperism and the subjects connected with it. The third part will be associated with the name of Ricardo, and will deal with England at the time of the Peace. It will discuss the doctrine of rent and wages together with certain theories of economic progress, *and will cover the questions of currency, so much agitated at that period, and the history of the commercial and financial changes which followed the Peace.**

* The sequel, as readers will observe, realises very imperfectly the plan here sketched out by Toynbee, and especially fails to deal with those portions of the scheme which are described in the words printed in italics. This is due partly to the fact that Toynbee himself found his subject, as he first conceived it, too large to be dealt with in a single course of lectures, and partly to the imperfection of even the best notes taken by his hearers, especially on the more difficult and abstruse, and in particular the purely financial and monetary, topics discussed by him.—ED.

I have chosen the subject because it was in this period that modern Political Economy took its rise. It has been a weakness of the science, as pursued in England, that it has been too much dissociated from History. Adam Smith and Malthus, indeed, had historical minds; but the form of modern text-books is due to Ricardo, whose mind was entirely unhistorical. Yet there is a double advantage in combining the two studies. In the first place Political Economy is better understood by this means. Abstract propositions are seen in a new light when studied in relation to the facts which were before the writer at the time when he formulated them. So regarded they are at once more vivid and less likely to mislead. Ricardo becomes painfully interesting when we read the history of his time. And, in the second place, History also is better understood when studied in connection with Political Economy; for the latter not only teaches us in reading History to look out for the right kind of facts, but enables us to explain many phenomena like those attending the introduction of enclosures and machinery, or the effects of different systems of currency, which without its assistance would remain unintelligible. The careful deductive reasoning, too, which Political Economy teaches is of great importance to the historian, and the habits of mind acquired from it are even more valuable than the knowledge of principles which it gives, especially to students of facts, who might otherwise be overwhelmed by the mass of their materials.

Of late years, however, there has been a steady sustained attack upon the abstract Deductive Method of Political Economy pursued by Ricardo and Mill, and an attempt to set up historical investigation in its place as the only true method of economic inquiry. This attack rests on a misconception of the function of the Deductive Method. The best exposition of the place of Abstract Political Economy is to be found in Bagehot's *Economic Studies*. Bagehot points out that this abstract science holds good only upon certain assumptions, but though the assumptions are often not entirely correct, the results may yet be approximately true. Thus the economists, firstly, regard only one part of man's nature, and treat him simply as a money-making animal; secondly, they disregard the influence of custom, and only take account of competition. Certain laws are laid down under these assumptions; as, for instance, that the rate of wages always tends to an equality, the permanent difference obtaining in various employments being only sufficient to balance the favourable or unfavourable circumstances attending each of them—a law which is only true after a certain stage of civilisation and in so far as the acquisition of wealth is the sole object of men. Such hypothetical laws, though leading

only to rough conclusions, are yet useful in giving us a point of view from which to observe and indicate the existence of strong overmastering tendencies. Advocates of the Historical Method, like Mr. Cliffe Leslie, therefore, go too far when they condemn the Deductive Method as radically false. There is no real opposition between the two. The apparent opposition is due to a wrong use of deduction; to a neglect on the part of those employing it to examine closely their assumptions and to bring their conclusions to the test of fact; to arguments based on premises which are not only not verified but absolutely untrue (as in the wage-fund theory); and generally to the failure to combine induction with deduction. But this misuse of the method does not imply any radical faultiness in it. The right method in any particular case must be largely determined by the nature of the problem. Neither is it fair to make abstract Political Economy responsible for the confusion in many minds between its laws and the precepts which are based on them. It is a pure science, and its end is knowledge. But the Political Economy of the press and the platform is a practical science, that is, a body of rules and maxims to guide conduct. Journalists and members of Parliament confound the laws of the pure science with the maxims of the practical science. It was thus that Mr. Gladstone in the Land Act controversy of 1881 was constantly accused of violating the laws of Political Economy. It was impossible for Mr. Gladstone to do any such thing. The laws of Political Economy can no more be violated than those of physical science. What the journalists meant was that he had departed from a great economic precept—that which recommends freedom of contract.

The Historical Method pursues a different line of investigation. It examines the actual causes of economic development and considers the influence of institutions, such as the mediaeval guilds, our present land-laws, or the political constitution of any given country, in determining the distribution of wealth. Without the aid of the Historical Method it would be impossible, for instance, to understand why one-half of the land in the United Kingdom is owned by 2512 persons.*

And not only does it investigate the stages of economic develop-

* The owners of properties over 3000 acres, and yielding a rental of at least £3000 are 2512; they own in

England and Wales .	14,287,373	acres out of	34,344,226
Scotland	14,118,164	"	18,986,694
Ireland	9,120,689	"	20,316,129

—Bateman's *Great Landowners.*

ment in a given country, but it compares them with those which have obtained in other countries and times, and seeks by such comparison to discover laws of universal application. Take, as an instance of the discoveries of this Comparative Political Economy, the tendency which Sir H. Maine and M. de Laveleye have pointed out to pass from collective to individual ownership of land. This is a law which is true of nearly all civilised countries. We must be careful, however, not to generalise too hastily in these matters. A clever pamphlet lately published in Dublin appeals to another generalisation of Sir H. Maine —'Maine's Law,' as it is denominated—in condemnation of recent legislation. 'Sir H. Maine,' says the writer, 'in his *Ancient Law* has remarked that the movement of all progressive societies has hitherto been a movement from status to contract. The demand of this agitation is that Ireland should be legislatively declared a retrograde society, and that the social movement should be from contract back again to status.'* 'Is it expedient,' asks another, 'to reform our laws so as to assimilate them to those in use among nations of an inferior social development?'† A deeper study of existing civilisation in England, and of other civilisations, past and present, would have shown that the step was not a retrograde one—that whilst the sphere of contract has been widening, it has been also narrowing, and that such a condition of things as we see in Ireland has never existed anywhere else without deep social misery, outrage, and disturbance. Custom or law or public opinion, or all three, have intervened in the past, and will intervene in the future. It is true that there is a movement from status to contract; yet if we look closely, we find that the State has over and over again had to interfere to restrict the power of individuals in which this movement results. The real course of development has been first from status to contract, then from contract to a new kind of status determined by the law—or, in other words, from unregulated to regulated contract.

The Historical Method is also of value because it makes us see where economic laws and precepts are relative.‡ The old economists

* *Confiscation or Contract?* (Dublin, 1880), p. 23.

† Richey, *The Irish Land-Laws*, p. 108.

‡ Comte was one of the first to recognise this truth, and it was from him that Mill learned that 'the deductive science of society will not lay down a theorem asserting in an universal manner the effect of any cause, but will rather teach us how to frame the proper theorem for the circumstances of any given case. It will not give the laws of society in general, but the means of determining the phenomena of any given society from the particular elements or data of that society.'—*System of Logic*, bk. vi, c. 9, § 2.

were wont to speak as if these laws and precepts were universal. Free trade, for instance, is a sound policy, no doubt, for England, and for all nations at a certain stage of development; but it is open to any one to say that free trade is only good under certain conditions. No English economist, it is true, has dared to say this. Mr. Jevons, to take an example, would admit restrictions only for considerations of the most paramount importance.* But it is an unjustifiable prejudgment of the question to lay down that this policy must be wise at all times and places. I do not mean to assert, however, that there are not some laws which are universally true, such as the law of diminishing returns.

This discussion about method may seem barren, but it is not really so. Take such a question as the functions of the State. Mr. Senior spent much time in attempting to discover an universal formula which should define their proper limit all the world over. Such an attempt must be abandoned. The proper limits of Government interference are relative to the nature of each particular state and the stage of its civilisation. It is a matter of great importance at the present day for us to discover what these limits are in our own case, for administration bids fair to claim a large share of our attention in the future. It would be well if, in studying the past,† we could always bear in mind the problems of the present, and go to that past to seek large views of what is of lasting importance to the human race. It is an old complaint that histories leave out of sight those vital questions which are connected with the condition of the people. The French Revolution has indeed profoundly modified our views of history, but much still remains to be done in that direction. If I could persuade some of those present to study Economic History, to follow out the impulse originally given by Malthus to the study of the history of the mass of the people, I should be indeed glad. Party historians go to the past for party purposes; they seek to read into the past the controversies of the present. You must pursue facts for their own sake, but penetrated with a vivid sense of the problems of your own time. This is not a principle of perversion, but a principle of selection. You must have some principle of selection, and you could not have a better one than to pay special attention to the history of the social problems which are agitating the world now, for you may be sure that they are problems not of temporary but of lasting importance.

* As, for instance, to check the exhaustion of our coal supplies.—*The Coal Question*, 247-354.

† Toynbee was addressing an audience principally composed of men studying for the History Schools.—ED.

Sidney Webb

1858–1947

and

Beatrice Webb

1858–1943

English economists did not reproduce the heated battle of methods which marked the foolish controversy in Germany between devotees of the new marginalism and partisans of the historical method. Reaching at the beginning of possible controversy the conclusion that it took a generation for German economists to perceive, Arnold Toynbee remarked on the relative claims of deductive and historical method: "There is no real opposition between the two. . . . The right method in any particular case must be largely determined by the nature of the problem." In fact, the only English economist who appeared to rival the German lust for controversy was Cliffe Leslie, who attacked deductive economists for ignoring the activity of the community and making unrealistic assumptions about the state of economic knowledge and the rationality of human behavior.

The English economists who were closest in spirit to the German historical school were the Webbs, whose activities are elsewhere described in this volume. Their History of Trade Unionism, *like their other historical investigations, is a model of painstaking collection of materials, thorough use of sources, and cautious generalization. More by implication than by direct statement, some of the characteristic positions of the historical economist are present. The Webbs are convinced that the comprehension of any complex human institution demands an understanding of its history. Abstract principle in the ab-*

sence of such understanding can only be misleading. And allied to this judgment is the belief that the character of an economic society, the mode of wage negotiation, the major features of unions, the rationality of the labor market, are all to be understood not as deductions from abstract doctrine but as inferences from present organization and past history.

It testifies to the soundness of the Webbs as historians, that their major investigations, including this one, still are valuable. The present selection is from History of Trade Unionism, *originally published in 1894, and finally revised in 1920 (London: Longmans, Green), pp. vii-xiv.*

Preface to the Original Edition of 1894

It is not our intention to delay the reader here by a conventional preface. As every one knows, the preface is never written until the story is finished; and this story will not be finished in our time, or for many generations after us. A word or two as to our method of work and its results is all that we need say before getting to our main business.

Though we undertook the study of the Trade Union movement, not to prove any proposition of our own, but to discover what problems it had to present to us, our minds were not so blank on the subject that we had no preconception of the character of these problems. We thought they would almost certainly be economic, pointing a common economic moral; and that expectation still seems to us so natural, that if it had been fulfilled we should have accepted its fulfilment without comment. But it was not so. Our researches were no sooner fairly in hand than we began to discover that the effects of Trade Unionism upon the conditions of labour, and upon industrial organisation and progress, are so governed by the infinite technical variety of our productive processes, that they vary from industry to industry and even from trade to trade; and the economic moral varies with them. Where we expected to find an economic thread for a treatise, we found a spider's web; and from that moment we recognised that what we had first to write was not a treatise, but a history. And we saw that even a history would be impossible to follow unless we separated the general history of the whole movement from the particular histories of thousands of trade societies, some of which have maintained a continuous existence from the last century, whilst others have cropped up, run their brief course, and disappeared. Thus,

when we had finished our labour of investigating the records of practically every important trade society from one end of the kingdom to the other, and accumulated piles of extracts, classified under endless trades and subdivisions of trades, we found that we must exclude from the first volume all but a small selection from those documents which appeared to us most significant with regard to the development of the general movement. Many famous strikes and lock-outs, many interesting trade disputes, many sensational prosecutions, and some furious outbursts of riot and crime, together with many drier matters relating to particular trades, have had either to be altogether omitted from our narrative, or else accorded a strictly subordinate reference in their relation to the history of Trade Unionism as a whole. All analysis of the economic effects of Trade Union action we reserve for a subsequent volume on the Problems of Trade Unionism, for which we shall draw more fully from the annals of the separate unions. And in that volume the most exacting seeker for economic morals will be more than satisfied; for there will be almost as many economic morals drawn as societies described.

That history of the general movement, to which we have confined ourselves here, will be found to be part of the political history of England. In spite of all the pleas of modern historians for less history of the actions of governments, and more descriptions of the manners and customs of the governed, it remains true that history, however it may relieve and enliven itself with descriptions of the manners and morals of the people, must, if it is to be history at all, follow the course of continuous organisations. The history of a perfectly democratic State would be at once the history of a government and of a people. The history of Trade Unionism is the history of a State within our State, and one so jealously democratic that to know it well is to know the English working man as no reader of middle-class histories can know him. From the early years of the eighteenth century down to the present day, Democracy, Freedom of Association, *Laisser-faire*, Regulation of the Hours and Wages of Labour, Co-operative Production, Free Trade, Protection, and many other distinct and often contradictory political ideals, have from time to time seized the imagination of the organised wage-earners and made their mark on the course of the Trade Union movement. And, since 1867 at least, wherever the ideals have left their mark on Trade Unionism, Trade Unionism has left its mark on politics. We shall be able to show that some of those overthrows of our party governments which have caused most surprise in the middle and upper classes, and for which the most far-fetched reasons have been given by them and their journalists and historians

after the event, carry their explanation on the surface for any one who knows what the Trade Unionists of the period were thinking. Such demonstrations, however, will be purely incidental, as we have written throughout of Trade Unionism for its own sake, and not for that of the innumerable side-lights which it throws on party politics.

In our concluding chapter, which we should perhaps offer as an appendix rather than as part of the regular plan of the volume, we have attempted to give a bird's-eye view of the Trade Union world of to-day, with its unequal distribution, its strong sectional organisation and defective political machinery, its new governing class of trade officials—above all, its present state of transition in methods, aims, and policy, in the face of the multitude of unsettled constitutional, economic, and political problems with which it stands confronted.

A few words upon the work of collecting materials for our work may prove useful to those who may hereafter come to reap in the same field. In the absence of any exhaustive treatment of any period of Trade Union history we have to rely mainly upon our own investigations. But every student of the subject must acknowledge the value of Dr. Brentano's fertile researches into English working-class history, and of Mr. George Howell's thoroughly practical exposition of the Trade Unionism of his own school and his own time. Perhaps the most important published material on the subject is the *Report on Trade Societies and Strikes* issued by the Social Science Association in 1860, a compact storehouse of carefully sifted facts which compares favourably with the enormous bulk of scrappy and unverified information collected by the five historic official inquiries into Trade Unionism between 1824 and 1894. We have, moreover, found a great many miscellaneous facts about Trade Unions in periodical literature and ephemeral pamphlets in the various public libraries all over the country. To facilitate the work of future students we append to this volume a complete list of such published materials as we have been able to discover. For the early history of combinations we have had to rely upon the public records, old newspapers, and miscellaneous contemporary pamphlets. Thus, our first two chapters are principally based upon the journals of the House of Commons, the minutes of the Privy Council, the publications of the Record Office, and the innumerable broadsheet petitions to Parliament and old tracts relating to Trade which have been preserved in the British Museum, the Guildhall Library, and the invaluable collection of economic literature made by Professor H. S. Foxwell, St. John's College, Cambridge.* Most important of all, for the period prior to 1835, are the many vol-

* Now in the Goldsmiths' Library at the University of London.

umes of manuscript commentaries, newspaper cuttings, rules, reports, pamphlets, etc., left by Francis Place, and now in the British Museum. This unique collection, formed by the busiest politician of his time, is indispensable, not only to the student of working-class movements, but also to any historian of English political or social life during the first forty years of the century.*

But the greater part of our material, especially that relating to the present century, has come from the Trade Unionists themselves. The offices of the older unions contain interesting archives, sometimes reaching back to the eighteenth century—minute-books in which generations of diligent, if unlettered, secretaries, the true historians of a great movement, have struggled to record the doings of their committees, and files of Trade Union periodicals, ignored even by the British Museum, through which the plans and aspirations of ardent working-class politicians and administrators have been expounded month by month to the scattered branches of their organisations. We were assured at the outset of our investigation that no outsider would be allowed access to the inner history of some of the old-fashioned societies. But we have found this prevalent impression as to the jealous secrecy of the Trade Unions without justification. The secretaries of old branches or ancient local societies have rummaged for us their archaic chests with three locks, dating from the eighteenth century. The surviving leaders of a bygone Trade Unionism have ransacked their drawers to find for our use the rules and minutes of their long-forgotten societies. In many a working man's home in London and Liverpool, Newcastle and Dublin—above all, in Glasgow and Manchester—the descendants of the old skilled handicraftsmen have unearthed "grandfather's indentures," or "father's old card," or a tattered set of rules, to help forward the investigation of a stranger whom they dimly recognised as striving to record the annals of their class. The whole of the documents in the offices of the great National and County Unions have been most generously placed at our disposal, from the printed reports and sets of rules to the private cash accounts and executive minute-books. In only one case has a General Secretary refused us access to the old books of his society, and then simply on the ground that he was himself proposing to write its history, and regarded us as rivals in the literary field.

Nor has this generous confidence been confined to the musty rec-

* Place's *Letter Books*, together with an unpublished autobiography, preserved by his family, are now in the custody of Mr. Graham Wallas, who is preparing a critical biography of this great reformer, which will throw much new light on all the social and political events of English history between 1798 and 1840 [published, 1st edition, 1898; 2nd edition, 1918].

ords of the past. In the long sojourns at the various industrial centres which this examination of local archives has necessitated, every facility has been afforded to us for studying the actual working of the Trade Union organisation of to-day. We have attended the sittings of the Trades Councils in most of the large towns; we have sat through numerous branch and members' meetings all over the country; and one of us has even enjoyed the exceptional privilege of being present at the private deliberations of the Executive Committees of various national societies, as well as at the special delegate meetings summoned by the great federal Unions of Cotton-spinners, Cotton-weavers, and Coalminers for the settlement of momentous issues of trade policy, and at the six weeks' sessions in 1892 in which sixty chosen delegates of the Amalgamated Society of Engineers overhauled the trade policy and internal administration of that world-wide organisation.

We have naturally not confined ourselves to the workmen's side of the case. In almost every industrial centre we have sought out representative employers in the different industries. From them we have received many useful hints and criticisms. But, as might have been expected, the great captains of industry are, for the most part, absorbed in the commercial side of their business, and are seldom accurately acquainted with the details of the past, or even of the present, organisation of their workmen. Of more assistance in our task have been the secretaries of the various employers' associations. Especially in the shipbuilding ports have these gentlemen placed at our disposal their experience in collective negotiation with the different sections of labour, and the private statistics compiled by their associations. But of all the employing class we have found the working managers and foremen, who have themselves often been workmen, the best informed and most suggestive critics of Trade Union organisation and methods. We have often regretted that precisely this class is the most difficult of access to the investigator of industrial problems, and the least often called as witnesses before Royal Commissions.

The difficulty of welding into narrative form the innumerable details of the thousands of distinct organisations, and of constructing out of their separate chronicles anything like a history of the general movement, has, we need hardly say, been very great. We are painfully aware of the shortcomings of our work, both from a literary and from a historical point of view. We have been encouraged in our task by the conviction—strengthened as our investigation proceeded—that the Trade Union records contain material of the utmost value to the future historian of industrial and political organisation, and

that these records are fast disappearing. Many of the older archives are in the possession of individual workmen, who are insensible of their historical value. Among the larger societies it is not uncommon to find only one complete set of rules, reports, circulars, etc., in existence. A fire, a removal to new premises, or the death of an old secretary frequently results in the disappearance of everything not actually in daily office use. The keen investigator or collector will appreciate the extremity of the vexation with which we have learnt on arriving at an ancient Trade Union centre that the "old rubbish" of the office had been "cleared out" six months before. The local public libraries, and even the British Museum, seldom contain any of the internal Trade Union records new or old. We have therefore not only collected every Trade Union document that we could acquire, but we have made lengthy extracts from, and abstracts of, the piles of minute-books, reports, rules, circulars, pamphlets, working-class newspapers, etc., which have been lent to us.

The Fuggers

Beginning with a modest loan of 23,627 florins in 1487 to Siegmund, Archduke of the Tyrol, Jacob Fugger II (1459-1526), usually known as "The Rich," built the fortunes of his family to an eminence which endured for more than a century in European finance. His business activities and those of his family covered the complete range of possibility: banking, finance, manufacturing, mining, and loans to private individuals, kings, and the pope. As was inevitable, his activities were entwined with those of governments. He collected the receipts from the sales of indulgences, transferred taxes to Rome, and financed the wars of the Hapsburgs. Although a Catholic, Jacob Fugger paid little attention to just price or usury. Much in his career and in his personality are consonant with the picture of the capitalist entrepreneur that Weber later advanced and confined to Calvinist merchants. Fugger pursued money without limit, often taken to be one of the marks of true capitalism. When his relatives late in his life presumed to suggest his retirement, his response was a statement of his intention to make a profit just as long as he possibly could. One of the advantages that the Fuggers had over their rivals was this capitalistic attitude. Another was the unrivaled flow of information they derived from the newsletters which their correspondents in many cities regularly sent them.

The passages reprinted below are examples in the first instance of the businesslike manner in which the Fuggers conducted even family matters, and in the second instance, of the technique of their dealings with kings and emperors.

The excerpts come from Jacob Fugger the Rich, *by Jacob Strieder (New York, 1931), pp. 189-219.*

Jacob Fugger the Rich

1. ARTICLES OF ASSOCIATION BETWEEN JACOB FUGGER AND HIS FOUR NEPHEWS (30 DECEMBER, 1512, AUGSBURG) *

I, Jacob Fugger, burgher of Augsburg, hereby announce and make known to all and sundry that the former Ulrich and George Fugger, my beloved brothers, now deceased, and I for a period of several years carried on our fraternal trade together out of our common capital, and according to the property of each; and to that end we severally made contracts mutually binding upon ourselves, as follows: firstly, articles of association, on the date of 18 August, 1494; secondly, an extension of renewal of the same, dated Friday after the day of Thomas the Apostle in 1502; and thirdly, a contract concerning, among other things, the Hungarian trade, dated Friday after the day of Thomas the Apostle in 1502. These contracts were made in similar terms, and in them we bound ourselves mutually for ourselves and our various heirs in such a way that, if one or two among us three brothers died, the two or one remaining alive among us should determine for the heirs of the deceased what was their capital and their profit or gain. With this decision the heirs should be entirely satisfied, and should demand no further accounting, nor any other reckoning. Also, when one or two among us died, it should remain the same as though he or they still lived; and the same articles should continue to be in force, and the two or one among us who still lived should govern and act, according to these articles, exactly the same as though we all three still lived.

And it has now come to pass, in accordance with the will of the Almighty, that my two beloved brothers are deceased, namely George on the 14th day of March in 1506, and Ulrich on the 19th day of April in 1510. For that reason, I have now to make an accurate accounting, and an approximate estimate, in accordance with the above-named agreements and articles, to my two deceased brothers' heirs, namely: Frau Anna Fugger of Cremnitz, the wife of the noble and honorable George Thurzo, Chamberlain to His Royal Majesty of Hungary; Frau Ursula Fugger, widow of the deceased honorable knight Philip von Stein; Frau Veronica Fugger, wife of Walther Echinger of Ulm; Frau Sybil, wife of the honorable Hansen Marx of Bubenhofen;

* Jansen, M., *Jacob Fugger der Reiche, Studien und Quellen,* vol. i, pp. 289-95.

and Jungfrau Susan, the five above-mentioned being the several daughters of my deceased brother Ulrich, the reckoning being made in view of their paternal and maternal inheritances. Further, to Frau Regina Imhof, bereaved widow of my deceased brother George, for so much as is due her after the death of her husband. Also to the worthy Marcus Fugger, prior at Regensburg, etc.; Frau Regina Fugger Hansen Baumgartner, the wife of the young citizen of Augsburg, both named being the children of my deceased brother George, the reckoning being made on account of their paternal inheritance and property. Further, to the Jungfrau Felicitas Fugger, nun in the Order of Saint Catherine, who during the life of my deceased brother Ulrich has received her share, together with Ulrich and Hieronymus, sons of my deceased brother Ulrich, and Raimund and Anton, sons of my deceased brother George, on account of the paternal and maternal property of my deceased brother Ulrich and his bereaved widow, and the paternal property of my deceased brother George. To all these I must make a distribution and a complete list on account of all the other property of my two above-named deceased brothers, and concerning all this arrange a complete transfer by quittance and in other ways.

For the fraternal association of myself and my two brothers Ulrich and George, in so far as it concerns the common trade, is now ended. In view of all this, and in order that the business begun by us three brothers might the longer continue, and so that our family and name be properly carried on, and my two brothers' sons become familiar with the trade, I have determined to carry on and manage the business myself, and to take industriously in hand my two brothers' sons, namely Ulrich and Hieronymus, sons of my brother Ulrich, and Raimund and Anton, sons of my brother George. I therefore invite them to join me in my common trade and in the Hungarian trade, and hereby do take them in with me in my business, for the six years next following the date of this document, and according to the terms of this agreement, but under no other conditions than the following:

The above-named four, my nephews, shall leave with me in my trade, for profit and loss during the specified time all their capital which is due and owing to them on account of the distribution and of the gain and profit of the trade which their two fathers and I formerly carried on, together with the noble and honorable Hansen and George Thurzo, our brothers-in-law, and otherwise. And this shall have reference to both the landed property and the "Preferred Share." And in my next accounting, which I shall give in the way determined upon by my two deceased brothers and myself in our

agreements, they shall accept in their entirety the amounts which I shall allot to them or their heirs, and shall waive all further advances, and shall give me a complete quittance in the matter.

Furthermore shall my above-mentioned four nephews collectively and each in particular recognize and look upon me as the head of this my business, together with such trade as I give them to do and accomplish; they are also faithfully bound to be true and obedient in all things, in whatsoever form and for whatever things this may be required, and to further the trade and business, and to avoid damage and injury to it to the best of their ability, and to hold the business in complete secrecy and tell no one. And the association shall be called *Jacob Fugger und seine Gebrüder Söhne,* or in Italian, *Jacobo Fugger e nepoti.* They, my four above-mentioned nephews, shall also in unison and singly carry on such trade in accordance with my command, and shall do nothing but what I command and give them permission to do. And if I direct one or all of them to do something, and afterward recall it to myself, they shall not dispute it. And what I alone arrange, or bind the association to, to that shall they also none the less be committed, and shall be bound to its accomplishment along with me.

And what the above-named my four nephews collectively or singly shall do, that shall they or he in no way keep secret from me. To that end shall none of them conceal from me the record books or other writings, or their acts, but shall show me all faithfully and without contradiction. The same shall be done by their heirs, should one of them die; and they shall not have the power to enter into trade, nor to seize any writings, nor to conceal or keep them from me.

These my nephews shall further, neither collectively nor singly, carry on any kind of trade, enterprise, or association for themselves, neither among themselves nor with anyone else, without my knowledge and consent. To that end shall none of them, without my knowledge, consent, and desire undertake any kind of responsibility whatever, whether in money or landed property, neither orally, nor in writing, nor in any other way, neither for himself nor among themselves for me or for another outsider; and no matter in what fashion such might take place, it shall nevertheless be entirely void and without force.

Each of my above-named nephews shall also, in my business, render faithfully and truly an account of all his receipts and disbursements and his other dealings, and whatever is lacking in the accounting, he shall make good himself. And whatever any one of them shall for himself require, take, or need, that shall be charged to him. Never-

theless shall none of them without my permission and consent take any considerable amount of money to use for himself, nor take it in any way from the business. When, however, one or more desires money from the business for his need or nourishment, such money I will give and accord to him, but not more than the fourth part of his capital in the six years, but only at one time, and at a time when such payments seem to me to be least disadvantageous or harmful to the business. And the profit and gain for such sums shall then according to reckoning be withheld from him or them.

And since they, my nephews, have not contributed with me in two equal third parts to my Hungarian and other common trade, but I rather have had to contribute the larger share, it shall rest with me, and upon my pleasure, whether I grant and accord to them, for the gain and profit therefrom, anything in excess of their due, and their share in the capital.

And I reserve to myself, and have the right and the full power, in case any of the above-mentioned my four nephews, singly or in several conduct himself or themselves contrary to my pleasure and will or otherwise unfittingly, to dismiss him or them, before the expiration of the six years, or the extension thereof, in the business and the association, without being required to give any cause for my action; or to give them notice within the said six years and before the expiration of the same, or the extension thereof, or at any time that I choose. On the other hand, my nephews shall not have the power, singly or together, to do the same before the expiration of the six years or the extension thereof. And during the six years before the expiration of the same, or after the expiration of the six years, or as I may desire during the six years to dismiss from the trade, or give notice to one or more of my said nephews, or in case one or more dies during the six years or the extension thereof, then or otherwise, whenever I desire, for a long or short period, I shall and will have full power to close up all the business, affairs, and accounts that are then outstanding, and to reckon them up; and when I have thus done and reckoned, to say to them and their heirs how much belongs to each of them or their heirs. And with what I allot or reckon to each of them, or the heirs of the same, they and their heirs shall be entirely satisfied, content, and appeased, without making any controversy, and shall accept that, and shall demand no further accounting nor anything else, but shall accord complete belief to my simple word. And the payment in the said case, both of capital and of profit, to whom it may belong, shall take place in six successive Frankfurt fairs, a sixth part at each fair; but in all the said cases, when the allotment and payment shall take

place through me, it shall rest with me whether I divide and give over to them singly or together, or to the heirs of the same, debts or goods in making the payment, and how they shall be appraised or valued. And also after notice of the payment has been given, such money shall no longer lie for profit or for loss.

When then the six years have passed and expired, and in the meantime by me alone or after the six years by me and my nephews, the above-mentioned further contract has not been made, or I have not concluded another one with them, then this shall hold another three years after the expiration of the six years; and further, if after the expiration of the said three years, I have not further contracted with them, then it shall continue further. In case I should die in the six years, or during the time of the extension, then my two nephews, Ulrich and Raimund, shall sign my name as it is now done, and shall have the power to carry on the business and the association, to handle money, debts, and goods, as though I were still living, and shall alone do and have all the power and the right which I have toward themselves, their brothers, and their and my heirs to make an accounting, statements, estimates, and deliveries; and shall not be disputed therein by my heirs nor by anyone else, but these shall trust and believe their simple word.

They, my two nephews, Ulrich and Raimund, shall not be hurried by my heirs for what is due to me from the business for capital and profit, but they, my two nephews, shall as stated above between themselves make an accounting and in one year or one and one-half years after my death shall make it known to my heirs, and then, in accordance with the announcement, in three years at six successive Frankfurt fairs shall make complete payment.

In case I alter one or more of the above points or articles, and do it differently, or add anything which concerns this business, whether it is something which I wish to have maintained during my life or after my death between me and my nephews, and my or their heirs, or between themselves and their heirs, on account of the business and trade, whether it be in writing or orally in my business, or my testament or otherwise, in whatever way it may take place, and be planned, arranged, done, established, announced, or declared, then it is my meaning and will that this be held and maintained in preference to the above declaration, and shall be strictly adhered to by my nephews and my and their heirs.

And this contract and agreement, as well as others which I shall make on account of this business, and the documents and contracts which formerly my two deceased brothers, Ulrich and George, and I

made with the honorable George Thurzo and his relatives, on account of this business and trade, and also the other documents which have previously been announced by me and my two deceased brothers and now once more by me and my nephews on account of the "Preferred Share" of the Hungarian trade and the landed property, shall all remain uninjured and unimpaired.

All of this, which is said above and declared by me, I promise and bind myself faithfully and freely to maintain truly within the terms of this document, and to carry it out, and to do nothing contrary to it, either myself or through another on my behalf. In proof of which I have given and delivered this document signed with my own hand, to all four of the above-mentioned nephews, sons of my two deceased brothers, and their heirs, and have publicly attached my own seal thereto, and have requested the honorable and wise Ulrich Sultzer, my brother-in-law, and Conrad Rehlinger, the councilor, both burghers of Augsburg, publicly to attach their seals to mine, without prejudice to them and their heirs; and I bind myself unreservedly thereby, so far as this contract bear upon me. The witnesses for my request for the seal are the honorable and wise Hartmann Sultzer, my brother-in-law, and Mathias Langenmantal, both burghers of Augsburg. The same done and given in Augsburg on the thirtieth day of the month of December, in the 1513th year of Christ our dear Lord.

I, Jacob Fugger, burgher of Augsburg, acknowledge in further confirmation all the above with this my own signature, and that this document is thus, with all its contents above described, by me declared, done, and arranged, and is sealed by me and others therein named, on account of my request.*

2. EMPEROR MAXIMILIAN TO HIS GOVERNMENT AT INNSBRUCK (20 MAY, 1515, AUGSBURG) †

To my noble, honorable, learned, and faithful subjects. Several years since, for excellent reasons, we decided in secret, for our own good, and the good of our House and the House of Austria, upon two marriages between our son and daughter and the daughter and son of King Vladislaw of Hungary and Behaim. In connection therewith we procured a promise that, after the death of said King Vladislaw, until the time when his children came of age, the administration of the Crown of Hungary and Behaim should fall to us. We further deter-

* A parchment document in book form, with three seals attached, in the Fugger-Archiv, at Augsburg, 31, 2.

† Jansen, *op. cit.*, vol. i, pp. 383-7.

mined to draw up the contracts necessary on both sides, and to exchange them; but still to keep the whole arrangement secret. And then we would both meet, so that the arrangement could be made public, and the betrothing of the children to one another be partially carried out and all the above sworn to by the subjects of both of us.

Since then we have treated with our royal brother on various occasions, for the settlement of our meeting place and time, so that the above arrangements might be brought to conclusion. Now for various reasons, this meeting has not taken place; but we considered, nevertheless, how important this matter was for us, and hoped that our brother, the King of Hungary, taking into consideration his age and weakness, might, before his death, be glad to complete the arrangements and to see us personally. Accordingly, we have, with earnest endeavor on both sides, arranged that we and our brother, the King of Hungary, and the King of Poland as well, are to meet in our principality of Austria below the Enns. It is not, however, fitting for our mutual dignity that we ourselves treat of such matters, but it is proper rather that all matters between ourselves and our two brothers be previously arranged and concluded, so that we come together merely to carry on friendly conversation. To this end, we have some time since sent our prince and friend the Cardinal von Gurgk to both of the above-named kings and empowered him to make final arrangements in all matters. Through his industry, most of the arrangements have been concluded, and, when necessary, he has left it to us to arrive at an opinion. We have therefore concluded that our meeting should take place, and that in particular the daughter of the King of Hungary should be delivered into our hands. When we reached this conclusion, we sent our friend von Gurgk again to both kings at Bresburg, so that he might make final arrangements with them, and provide for a meeting of all three of us with our children.

Now, we have reason to think, in fact, we have knowledge, that our two brothers will come to us with great array of followers, with much regalia and other luxuries, making an imposing appearance. It is, therefore, fitting, in view of the royal meeting, the pledge of marriage, and other mutual contracts and understandings, between us and our children, as well as our two kingdoms and lands, that we also prepare ourselves for their arrival and our meeting, with an imposing array, with princes and other high personages, together with luxurious and expensive jewels and equipment. Furthermore, we must necessarily entertain our royal brothers and their children, as well as the high personages whom they bring with them, using royal regalia, silver plate, and other tokens of honor, when the meeting takes

place in our city of Vienna. As you yourselves may imagine, we require for this a considerable sum of money. And however difficult we may think that is to provide, in view of the weary war in which we have long been engaged, and which has so exhausted our treasury, we still think of the good that may come to us, our children, and our House of Austria from such brotherly meetings, marriage contracts, and mutual understandings, and how we thus will put our lands and people at permanent peace with the kingdoms of Hungary, Behaim, Poland, and Märhern. Furthermore, we may secure their aid and assistance against the Venetians, and thus earlier secure an honorable peace from the same Venetians, to the benefit of all our lands.

So, for this and other reasons, we think that the meeting with our brother kings is advantageous, and that it must take place with ceremony, honor, etc., for our sake. Therefore we have arranged for 1,000 horses with harness and equipment, and 1,000 unequipped, together with our costly jewels and articles of luxury, and still not to excess, in view of the coming of our brothers. In addition, we have summoned certain high princes and other people of rank, and are entirely prepared, as soon as our friend the Cardinal has completed his task and notifies us, to move immediately toward Vienna, and await the arrival of our brothers there.

Since, however, we require, as we noted above, for such a procedure a considerable sum of money, and since our treasury is almost exhausted, we must do what we can, and finance ourselves in whatever way is possible.

For this reason, and on the above-mentioned grounds, we have made a financial deal with our counselor, Jacob Fugger, through two letters, which we herewith forward to you. It is fitting that such financing take place with your knowledge, and that the letters concerning it be prepared and worded according to your order.

Now as we know and realize with what considerable sums of money you have formerly helped us from the treasury of your government, and particularly in the support of our *ordinari*, and how as a result our treasury is practically exhausted, we would gladly spare you; nevertheless, you are asked to consider of what importance these agreements are with Hungary, Behaim, and Poland, and in particular the marriage. And more especially since we are well informed that if we do not conclude this matter now, and meet with our royal brothers, that no arrangement will be possible in future, and the marriage will fall through, and the daughter will not be given to us; and furthermore that the two kings, as well as their kingdoms, lands, and

people, will become declared enemies of our lands and people, and will ally themselves with the Venetians, strengthening and abetting the latter, so that we will be unable to conclude peace. In addition, we would certainly have the war in our Austrian lands at once; we are, indeed, unable to say to you how disadvantageous and weakening it would be to us if the above-mentioned dealings should fall through. But you can conceive it for yourselves. Therefore we turn to you with this especially earnest request, and remind you, whom we look upon with special confidence, as you well know and realize, how important this whole matter is to us, and what good and benefit may come out of it for us and our children, as well as our lands and people. And for these reasons, we request you to accept the proposed loan with the above-mentioned Fugger, and to sign the above-named contract and letter according to the manner of our treasury, and to affix the seal; and to send it back to us immediately by postal courier, and not to refuse it nor delay with it. For in the gracious trust which we repose in you, we have counted upon this in our financial plans, and have arranged our affairs and departure accordingly, and have so planned for us and our family, and have also sent word to the princes and arranged with them that, so soon as our friend the Cardinal von Gurgk writes that the main agreement with the two kings, and the fact of our meeting have been concluded, we are to move on immediately. But we cannot do this unless the loan from the Fuggers is carried through. For without this we cannot go on, but will have to drop all the above dealings with both kings, and abandon the plan for our and their children, and cancel all the arrangements; and it will probably bring about the disadvantages and injuries suggested above if we finally abandon our meeting with them. If we knew any other method of finance, we would have been only too glad to have spared you this; but we know of no other way. And the matter will bear no delay, for the two kings have already waited long upon us; if we do not now carry it through to completion, they will lose their desire, and it will perhaps give them cause not to want to meet us. Therefore we have been forced to do as we have indicated above, and must move immediately upon receipt of the von Gurgk letter. And when we have completed this Hungarian arrangement, we will then have ways and means of preventing this Fugger loan from being disadvantageous or harmful, or causing any difficulty to our treasury, as we will disclose to you at the proper time. We did not wish to leave you uninformed in the matter. We earnestly request you to further this matter, and not to delay nor to refuse, on account of the neces-

sities above indicated. You will thereby do us a special favor which will be graciously recognized. Given in our and the Imperial City of Augsburg on the 20th day of May in the year etc. xvto.

By His Imperial Majesty and signed by Him.

Do not forsake us in such necessity. For all our welfare depends upon it. p. m. pr. To the government and Council at Innsbruck.*

3. LETTER FROM EMPEROR MAXIMILIAN'S TWO REPRESENTATIVES TO THE EMPEROR (2 OCTOBER, 1515, AUGSBURG) †

Our Most Gracious Emperor. We arrived here on Friday, 28 September at three P.M.; and as Your Majesty's instructions and letter of credit [?] (*credentzen*) reached us on the following Sunday at two P.M., we thereupon, with utmost zeal, opened negotiations with Jacob Fugger concerning an extension of time on the three points or articles, according to Your Majesty's instructions, and first on behalf of the 12,000 gulden. To this he gave us a detailed answer, namely, that he had extended loans to Your Majesty for some time past, and in this year had given to the smelting works at Rattemberg Schwaz silver and copper, and to Your Majesty's treasury and in other ways had furnished such large sums of money that the total amounted to 300,000 Rhenish gulden. Practically all of this remains as yet unpaid to him, so that he suffers a great lack of ready money, and has had to contract loans among his good friends, which will have to be repaid out of the income from the above-mentioned deals and loans. With special reference to the 12,000 Rhenish gulden, which are due him at Christmas-time, he has arranged to pay out of that amount the 10,000 gulden which he owes to the treasury at Innsbruck, and which fall due on December 1. In other respects, too, he has made his reckoning with the desire not to be confused in his arranged and ordered payments, and asks to be excused to Your Majesty and your government on account of this loan, so that he may be spared this time, until such time as he has satisfied his creditors, by which time he will have partly raised the above sum of gulden. Otherwise he would not have refused to have extended further loans to Your Imperial Majesty and the officials of the government, as he would like to do with the best will.

He also had not expected, in view of the obedient loan, which he

* A copy at Innsbruck, at the Statthalterei-Archiv. Copybook I, Series 1515-16 (G9), fol. 33ff.

† Jansen, *op. cit.*, vol. i, pp. 387-91.

had recently made on the trip from Vienna, with great difficulty and cost, to Your Imperial Majesty, that Your Majesty would so soon seek a further loan—and with other words requested that we, as above stated, should excuse him to Your Imperial Majesty and the gentlemen of the government.

Thereupon we again repeated to him with the greatest justice, and showed him the serious situation and duty which now lay before him, and also the gracious trust reposed in him by Your Imperial Majesty and all your government at Innsbruck, and with other words urged him to consider it all, and said we would come to him again and would hope to receive a better answer from him.

And when we came to him the next day, he clung to his first answer; and thereupon we took up with him, according to our instructions, again with great skill, the other dun, namely that for 58,000 gulden. Thereupon the said Fugger gave us an answer as follows, namely: that to him such dealing was entirely unreasonable, and it would not redound to his credit that one desired discussions and arguments over arranged and concluded contracts, and delay of the payments; he was forced to take into consideration that, if he did this once, and the payment became due again, he would again be involved in discussions and arguments over a delay in payment, and the like, which was not reasonable to him as a merchant, and might indeed involve discredit for the treasury among other merchants who took note of this.

Also it was no part of his intention to put out money simply at interest; it was not right nor advantageous, etc., and in spite of much talk and controversy, he would give no other reply or answer concerning this point. But we again requested of him that he consider it, and that we should come again to him after eating. But he said, he would not refuse us, but he feared he would not be able to think otherwise.

And so we came to him again after luncheon, but he clung to his former answer, repeating all the above-described objections, so that we, according to our instructions, had to bring up the third point, concerning a silver or copper deal, which we then did with the greatest zeal. Thereupon he answered us that while he truly wished to do for the pleasure of Your Imperial Majesty and the government everything which lay in his power, with repetition of his great expenditure and debts, as described above, that the silver was promised to the seventh or eighth and the copper to the fourth year. He also pointed out, with a special complaint, that, although formerly from 12,000 to 14,000 marks of silver had been produced in the smeltery in a year, now, when he had loaned a considerable sum of money on it, not

more than 6,000 or 7,000 marks were made in a year, which was a great injury to him, and one that he had not reckoned on. And he did not know how long he would live, or how it might be over a period of years on account of this war. And he had in addition a good deal of negotiating, and it increased daily, so that men now came to him at his house to whom he would willingly have traveled far in years past, which he would like to be rid of. Nevertheless, he had decided, since he was advancing in years and had no children, to carry out the business in which he was now engaged and to refrain from entering upon other long-time deals, and to bring in the debts which were now outstanding, and to pay his creditors, etc. None the less, if he had money, which he did not at this time, or if the matter could be delayed until Easter-time, he expected that in the meantime from the above-mentioned deals and debts perhaps a hundred thousand gold gulden would come in and be paid, so that if propositions were then made to him by His Majesty and his government, which were not too far-reaching, and so that he could look to a definite and certain place from which he would recover his money in time, he would then go into negotiations and gladly do all he could, as he had formerly done for the sake of Your Imperial Majesty and his government alone, and not because of any profit or gain.

He also pointed out to us how we might raise something from other merchants here, several of whom he named to us; he also stated that he had at the present day well over 300,000 gulden of copper deposited in three or four places, of which very little had been sold since the latest copper contract, and that he hoped to bring copper to a higher point than it had ever been.

And although in this matter we intimated to him more than once that if he knew of any proposition which was reasonable to him, and on the basis of which he would loan money to Your Majesty, he should describe and explain this proposition to us, so that we could make it known to Your Majesty, and ask you to let us know about it, but he did not wish to make us any proposition, but indicated to us that since the silver from the Schwaz and the smelting plant were promised for a long period of years, it would not be reasonable to him to put out money at any interest, and for that reason he truly knew of no plan. He would, however, gladly consider a proposition from us, and if it seemed to him at all acceptable, he would gladly and obediently conduct himself therein as heretofore. According Your Imperial Majesty and your whole administration should take under consideration, whether and how one or more such propositions could be formed, and graciously let us know by the earliest post. And we should act therein to the height of our capacity and enterprise.

And since Your Imperial Majesty's instructions required us to notify you of the dealings we had with the Fugger, together with all our advice and counsel, although our advice in the matter is slight, still we think, if the proposition is made to the Fugger in the nature of a contract or otherwise, with good security, but not with interest, nor too circuitous nor too long drawn out, he should within a short time after the making of the contract have ready a sum of money, and more later, even though in his reply he refuses Easter as a date. For as Your Imperial Majesty informed us at the conclusion of our instructions, if Fugger wished to do neither the one nor the other, that we should deal further with the Höchstetters and other merchants, we none the less wish to open the negotiations in the meantime with the Höchstetters, and whether we are successful or not, later turn to other merchants. And still we do not wish to deal too soon or too suddenly with them upon the credit of Your Majesty, unless we find that something worth while can be thereby secured. In the meantime, and before we negotiate something explicitly with other merchants, we hope Your Majesty will notify us about this matter of the Fugger, so that we know how to conduct ourselves.

In case, however, that we, before we receive an answer from Your Imperial Majesty concerning this notice of ours about the Fugger, make some definite deal with other merchants, we will make it known to Your Majesty by day-and-night post; although the treasurer fears that we will make no deal and find no large sum of money with other merchants than the Fuggers, we wish nevertheless to make our modest efforts therein with the best means.

And we hereby commend ourselves obediently to Your Imperial Majesty. Dated at Augsburg on Thursday the 2nd of October at the eleventh hour in the night. Anno domini etc. xv.

Your Imperial Majesty's

Humble

Blasi Höltzl
Johann Zott*

4. A LETTER FROM JACOB FUGGER TO THE ELECTOR FREDERICK OF THE PFALZ (22 AUGUST, 1522, AUGSBURG)

Your Serene Highness and Highborn Prince, and Gracious Lord, my humble service is always at the command of Your Princely Grace.

Your Princely Grace well remembers that you are to pay to the Company Rem and in part to me at the Frankfurt autumn fair the

* A copy at Innsbruck, at the Statthalterei-Archiv, Maximiliana XII, 40.

fourth part of the 14,000 Rhenish gulden, that is, 3,500 gulden in gold. It is therefore my humble request to Your Grace that you bear this debt in mind, and arrange to pay, at the specified time, this sum to Andreas Rem and his Company. It is my humble request that this be done. I hereby humbly recommend myself to Your Princely Grace. Dated Augsburg on the 22nd day of the month of August, 1522.

Your Serene Highness'
Humble
JACOB FUGGER *

5. CHARLES V TAKES UNDER HIS PROTECTION THE MINING INTERESTS OF THE FUGGERS (26 OCTOBER, 1525, TOLEDO) †

We, Charles V, etc., hereby give notice to all and sundry that Jacob Fugger, beloved subject of us, our council, and our empire, has brought to our notice how he and his two deceased brothers' sons on several occasions and in particular on two occasions made two deals and contracts, namely: firstly, a four-year contract for himself and the above-mentioned two brothers' sons, made the 7th day of November of the year 1514, which went into effect at Christmas-time of the year 1516; and secondly a four-year contract with Ambrose and Hansen Höchstetter, together with their relatives, made on the 30th day of the month of October in the year 1515, to go into force at the expiration of the above-mentioned first four years. According to these contracts, the Schwaz silver and copper in our Duchy of Tyrol belonging to the former worshipful Emperor Maximilian of blessed memory, our forefather, and to no one else, was to go to them. And how, more than forty years before and earlier, in the time of the above-named Emperor Maximilian our forefather, and our beloved cousin the Archduke Sigmund of Austria, of blessed memory, on account of the above-mentioned Schwaz copper and silver and the mines as well as the smelteries, and for the maintenance of the same and for their use, every year contracts with various merchants were made without harm, sometimes for silver alone, and sometimes for silver and copper, which they had secured from their own property and mines which they bought in our Austrian lands and in the kingdom of Hungary. And that they had ever dealt and acted legally and justly, as honest people, and had been recognized as such by everybody. But concerning all this it has reached them that he and his brothers'

* A copy is in the Bischöfliches Archiv., Eichstadt.
† Jansen, *op. cit.*, vol. i, pp. 404-6.

sons were accused, not only of making their deal with our forefather, Emperor Maximilian, on account of the Schwaz silver and copper, but also of dealing in and transporting the same, as well as the silver and copper belonging to Jacob Fugger and his brothers' sons, which they obtained from their own property and mines in our Austrian lands as well as in Hungary; and of having done all this contrary to law, and of having thereby caused and brought about to their advantage an increase in the price of silver and copper, contrary to the general good and welfare. All of which they entirely deny, having shown us rather, in all humility, what they have accomplished by the purchase of the above-mentioned silver and copper; and that this had been done not otherwise than with the consent of the Roman Emperor and that it was properly in force, and legitimate. And that he and his brothers' sons have not endeared prices nor dealt illegally, neither with the silver and copper brought from His Imperial Majesty, nor with the other which they secured from their own mines in our Austrian lands. And that much less have they brought about in the German nation any enhancement of prices, such as is condemned by law, or is unseemly or criminal. For it is true and may be ascertained that he and his brothers' sons not only sold most of the silver and copper which they had bought in German lands, but also that the silver of eight, ten, twelve, and sixteen years before, that is, before they had bought the above-named silver from Emperor Maximilian, had been worth rather more than less than it now was, and that forty, thirty, and twenty-four years before the copper was bought by the merchants of the Schwaz at about as much per centner as it is now; and that he and his brothers' sons in obedience to the law, without any hindrance of prohibition had always acted and dealt reasonably, and still did. More especially as they had transported, dealt, and otherwise traded in, in Germany and in other lands and nations, their own property and goods such as gold, silver, copper, and other metals, which they had during many years secured from their own mines and property in foreign kingdoms as in Hungary, and which they had often bought from no one else; and from which Almighty God had hitherto granted them a good part of their nourishment, since they otherwise paid the customary tolls and dues, through which the rulers and the lands and people have no small benefit in their yearly income; and had done and conducted themselves in the best and most useful way. In all this, they humbly petition and request us to grant him and his brothers' sons our imperial freedom, grace, protection, manifesto, and other necessary legal assistance through further ordinances, statutes, and confirmations, and

also in all other ways to guard, protect, and defend them from unfair accusations in everything as above described.

We decree as above, and declare all the above dealings to be legal. . . . Given in our city of Toledo in Castile on the 26th day of the month of October in the 1525th year after the birth of Christ our dear Lord, in the seventh year of our Roman Empire, and the tenth year of the other.

On the back: Taxa florenos rhen. quadraginta. Ad mandatum caesaree ac catholice Majestatis proprium Brantner.

Max Weber

1864–1920

Max Weber was one of the towering figures in the history of social science. His analysis of bureaucracy was fresh both in technique and conclusion. His studies in religious and urban sociology are still used by contemporary students of society. His approach to the understanding of capitalism combined the techniques of the historian and the sociologist. As a historian, he started with the factual conclusion (afterwards much challenged by his critics) that early capitalism was the work of Protestant businessmen. More specifically these businessmen were Calvinists resident primarily in England and Holland. More than coincidence was surely at work.

In the two long essays that constituted The Protestant Ethic and the Spirit of Capitalism, *Weber undertook to explain the social and psychological mechanisms that made Calvinism and capitalism so sympathetic to each other. Consider, Weber said, the central Calvinist doctrine of predestination. In all its grimness, this article of faith declared that God, of his own mercy, had selected some men for salvation and consigned the remainder to eternal punishment. Sinners and saints looked alike and appeared to act alike. In his heart, each Calvinist suffered from the gnawing question, Am I of the elect? The psychological burden was too heavy to be borne. The good Calvinist bettered himself in the world out of the necessity that only so would God help him. No doubt worldly success could not guarantee salvation. Nevertheless, an active, energetic, ascetic life, full of good works, testified at least to the probability of God's grace. Idleness was surely a sign of sin. Hence, intense, unremitting labor relieved anxiety. Asceticism in personal expenditure promoted capital accumulation. And the result was "a specifically bourgeois economic ethic." "With the consciousness of standing in the fullness of God's grace and*

being visibly blessed by Him, the bourgeois business man, as long as he remained within the bounds of formal correctness, as long as his moral conduct was spotless and the use to which he put his wealth was not objectionable, could follow his pecuniary interests as he would and feel that he was fulfilling a duty in doing so." His labor was likely to be docile, because his workmen too were Calvinist in their personal habits and convinced that their occupation was a calling from God. And, ". . . finally it gave him the comforting assurance that the unequal distribution of goods of this world was a special dispensation of Divine Providence, which in these differences, as in particular grace, pursued secret ends unknown to man."

In the passage that follows Weber offered a careful definition of the specifically capitalist spirit. The lust for gain is as old as human history. What was new in capitalism was ". . . the pursuit of profit, and forever renewed *profit, by means of continuous, rational, capitalistic enterprise." Hence the natural alliance of capitalism with science and technology which offer the promise of systematic, rational control over the process of production, and with accounting which promises an equal measure of control over prices and costs. Weber's genetic analysis of capitalism contrasts sharply with the assumption of many classical and neoclassical economists that the categories of modern capitalist derive from some immutable characteristics of human nature. Such an assumption was implicit in Adam Smith's emphasis upon the "natural" human instinct to truck and barter, as it has tended to be implicit even today in the conventional maximizing assumptions that economists make about both consumers and businessmen.*

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Capitalist Rationality

A product of modern European civilization, studying any problem of universal history, is bound to ask himself to what combination of circumstances the fact should be attributed that in Western civilization, and in Western civilization only, cultural phenomena have appeared which (as we like to think) lie in a line of development having *universal* significance and value.

Only in the West does science exist at a stage of development which we recognize to-day as valid. Empirical knowledge,

reflection on problems of the cosmos and of life, philosophical and theological wisdom of the most profound sort, are not confined to it, though in the case of the last the full development of a systematic theology must be credited to Christianity under the influence of Hellenism, since there were only fragments in Islam and in a few Indian sects. In short, knowledge and observation of great refinement have existed elsewhere, above all in India, China, Babylonia, Egypt. But in Babylonia and elsewhere astronomy lacked—which makes its development all the more astounding—the mathematical foundation which it first received from the Greeks. The Indian geometry had no rational proof; that was another product of the Greek intellect, also the creator of mechanics and physics. The Indian natural sciences, though well developed in observation, lacked the method of experiment, which was, apart from beginnings in antiquity, essentially a product of the Renaissance, as was the modern laboratory. Hence medicine, especially in India, though highly developed in empirical technique, lacked a biological and particularly a biochemical foundation. A rational chemistry has been absent from all areas of culture except the West.

The highly developed historical scholarship of China did not have the method of Thucydides. Machiavelli, it is true, had predecessors in India; but all Indian political thought was lacking in a systematic method comparable to that of Aristotle, and, indeed, in the possession of rational concepts. Not all the anticipations in India (School of Mimamsa), nor the extensive codification especially in the Near East, nor all the Indian and other books of law, had the strictly systematic forms of thought, so essential to a rational jurisprudence, of the Roman law and of the Western law under its influence. A structure like the canon law is known only to the West.

Organization of political and social groups in feudal classes has been common. But even the feudal* state of *rex et regnum* in the Western sense has only been known to our culture. Even more are parliaments of periodically elected representatives, with government by demagogues and party leaders as ministers responsible to the parliaments, peculiar to us, although there have, of course, been parties, in the sense of organizations for exerting influence and gaining control of political power, all over the world. In fact, the State itself, in the sense of a political association with a rational, written constitution, rationally ordained law, and an administration bound to rational rules or laws,

* *Ständestaat.* The term refers to the late form taken by feudalism in Europe in its transition to absolute monarchy.—TR.

administered by trained officials, is known, in this combination of characteristics, only in the Occident, despite all other approaches to it.

And the same is true of the most fateful force in our modern life, capitalism. The impulse to acquisition, pursuit of gain, of money, of the greatest possible amount of money, has in itself nothing to do with capitalism. This impulse exists and has existed among waiters, physicians, coachmen, artists, prostitutes, dishonest officials, soldiers, nobles, crusaders, gamblers, and beggars. One may say that it has been common to all sorts and conditions of men at all times and in all countries of the earth, wherever the objective possibility of it is or has been given. It should be taught in the kindergarten of cultural history that this naïve idea of capitalism must be given up once and for all. Unlimited greed for gain is not in the least identical with capitalism, and is still less its spirit. Capitalism *may* even be identical with the restraint, or at least a rational tempering, of this irrational impulse. But capitalism is identical with the pursuit of profit, and forever *renewed* profit, by means of continuous, rational, capitalistic enterprise. For it must be so: in a wholly capitalistic order of society, an individual capitalistic enterprise which did not take advantage of its opportunities for profit-making would be doomed to extinction.

Let us now define our terms somewhat more carefully than is generally done. We will define a capitalistic economic action as one which rests on the expectation of profit by the utilization of opportunities for exchange, that is on (formally) peaceful chances of profit. Acquisition by force (formally and actually) follows its own particular laws, and is not expedient, however little one can forbid this, to place it in the same category with action which is, in the last analysis, oriented to profits from exchange.* Where capitalistic

* Here, as on some other points, I differ from our honoured master, Lujo Brentano (in his work to be cited later), chiefly in regard to terminology, but also on questions of fact. It does not seem to me expedient to bring such different things as acquisition of booty and acquisition by management of a factory together under the same category; still less to designate every tendency to the acquisition of money as the spirit of capitalism as against other types of acquisition. The second sacrifices all precision of concepts, and the first the possibility of clarifying the specific difference between Occidental capitalism and other forms. Also in Simmel's *Philosophie des Geldes* money economy and capitalism are too closely identified, to the detriment of his concrete analysis. In the writings of Werner Sombart, above all in the second edition of his most important work, *Der moderne Kapitalismus*, the *differentia specifica* of Occidental capitalism—at least from the view-point of my problem—the rational organization of labour, is strongly overshadowed by genetic factors which have been operative everywhere in the world.

acquisition is rationally pursued the corresponding action is adjusted to calculations in terms of capital. This means that the action is adapted to a systematic utilization of goods or personal services as means of acquisition in such a way that, at the close of a business period, the balance of the enterprise in money assets (or, in the case of a continuous enterprise, the periodically estimated money value of assets) exceeds the capital, i.e. the estimated value of the material means of production used for acquisition in exchange. It makes no difference whether it involves a quantity of goods entrusted *in natura* to a traveling merchant, the proceeds of which may consist in other goods *in natura* acquired by trade, or whether it involves a manufacturing enterprise, the assets of which consist of buildings, machinery, cash, raw materials, partly and wholly manufactured goods, which are balanced against liabilities. The important fact is always that a calculation of capital in terms of money is made, whether by modern book-keeping methods or in any other way, however primitive and crude. Everything is done in terms of balances: at the beginning of the enterprise an initial balance, before every individual decision a calculation to ascertain its probable profitableness, and at the end a final balance to ascertain how much profit has been made. For instance, the initial balance of a *commenda** transaction would determine an agreed money value of the assets put into it (so far as they were not in money form already), and a final balance would form the estimate on which to base the distribution of profit and loss at the end. So far as the transactions are rational, calculation underlies every single action of the partners. That a really accurate calculation or estimate may not exist, that the procedure is pure guesswork, or simply traditional and conventional, happens even to-day in every form of capitalistic enterprise where the circumstances do not demand strict accuracy. But these are points affecting only the *degree* of rationality of capitalistic acquisition.

For the purpose of this conception all that matters is that an actual adaptation of economic action to a comparison of money income with money expenses takes place, no matter how primitive the form. Now in this sense capitalism and capitalistic enterprises, even with a con-

* *Commenda* was a form of mediaeval trading association, entered into *ad hoc* for carrying out one sea voyage. A producer or exporter of goods turned them over to another who took them abroad (on a ship provided sometimes by one party, sometimes by the other) and sold them, receiving a share in the profits. The expenses of the voyage were divided between the two in agreed proportion, while the original shipper bore the risk. See Weber, "Handelsgesellschaften im Mittelalter," *Gesammelte Aufsätze zur Sozial—und Wirtschaftsgeschichte,* pp. 323-8.—TR.

siderable rationalization of capitalistic calculation, have existed in all civilized countries of the earth, so far as economic documents permit us to judge. In China, India, Babylon, Egypt, Mediterranean antiquity, and the Middle Ages, as well as in modern times. These were not merely isolated ventures, but economic enterprises which were entirely dependent on the continual renewal of capitalistic undertakings, and even continuous operations. However, trade especially was for a long time not continuous like our own, but consisted essentially in a series of individual undertakings. Only gradually did the activities of even the large merchants acquire an inner cohesion (with branch organizations, etc.). In any case, the capitalistic enterprise and the capitalistic entrepreneur, not only as occasional but as regular entrepreneurs, are very old and were very widespread.

Now, however, the Occident has developed capitalism both to a quantitative extent, and (carrying this quantitative development) in types, forms, and directions which have never existed elsewhere. All over the world there have been merchants, wholesale and retail, local and engaged in foreign trade. Loans of all kinds have been made, and there have been banks with the most various functions, at least comparable to ours, of say, the sixteenth century. Sea loans,* *commenda,* and transactions and associations similar to the Kommanditgesellschaft,† have all been widespread, even as continuous businesses. Whenever money finances of public bodies have existed, money-lenders have appeared, as in Babylon, Hellas, India, China, Rome. They have financed wars and piracy, contracts and building operations of all sorts. In overseas policy they have functioned as colonial entrepreneurs, as planters with slaves, or directly or indirectly forced labour, and have farmed domains, offices, and, above all, taxes. They have financed party leaders in elections and *condottieri* in civil wars. And, finally, they have been speculators in chances for pecuniary gain of all kinds. This kind of entrepreneur, the capitalistic adventurer, has existed everywhere. With the exception of

* The sea loan, used in maritime commerce in the Middle Ages, was "a method of insuring against the risks of the sea without violating the prohibitions against usury. . . . When certain risky maritime ventures were to be undertaken, a certain sum . . . was obtained for the cargo belonging to such and such a person or capitalist. If the ship was lost, no repayment was exacted by the lender; if it reached port safely, the borrower paid a considerable premium, sometimes 50 per cent." Henri Sée, *Modern Capitalism,* p. 189.—TR.

† A form of company between the partnership and the limited liability corporation. At least one of the participants is made liable without limit, while the others enjoy limitation of liability to the amount of their investment.—TR.

trade and credit and banking transactions, their activities were predominantly of an irrational and speculative character, or directed to acquisition by force, above all the acquisition of booty whether directly in war or in the form of continuous fiscal booty by exploitation of subjects.

The capitalism of promoters, large-scale speculators, concession hunters, and much modern financial capitalism even in peacetime, but, above all, the capitalism especially concerned with exploiting wars, bears this stamp even in modern Western countries, and some, but only some, parts of large-scale international trade are closely related to it, to-day as always.

But in modern times the Occident has developed, in addition to this, a very different form of capitalism which has appeared nowhere else: the rational capitalistic organization of (formally) free labour. Only suggestions of it are found elsewhere. Even the organization of unfree labour reached a considerable degree of rationality only on plantations and to a very limited extent in the *Ergasteria* of antiquity. In the manors, manorial workshops, and domestic industries on estates with serf labour it was probably somewhat less developed. Even real domestic industries with free labour have definitely been proved to have existed in only a few isolated cases outside the Occident. The frequent use of day labourers led in a very few cases—especially State monopolies, which are, however, very different from modern industrial organization—to manufacturing organizations, but never to a rational organization of apprenticeship in the handicrafts like that of our Middle Ages.

Rational industrial organization, attuned to a regular market, and neither to political nor irrationally speculative opportunities for profit, is not, however, the only peculiarity of Western capitalism. The modern rational organization of the capitalistic enterprise would not have been possible without two other important factors in its development: the separation of business from the household, which completely dominates modern economic life, and closely connected with it, rational book-keeping. A spatial separation of places of work from those of residence exists elsewhere, as in the Oriental bazaar and in the *Ergasteria* of other cultures. The development of capitalistic associations with their own accounts is also found in the Far East, the Near East, and in antiquity. But compared to the modern independence of business enterprises, those are only small beginnings. The reason for this was particularly that the indispensable requisites for this independence, our rational business bookkeeping and our legal separation of corporate from personal property, were entirely lacking, or had

only begun to develop.* The tendency everywhere else was for acquisitive enterprises to arise as parts of a royal or manorial *household* (of the *oikos*), which is, as Rodbertus has perceived, with all its superficial similarity, a fundamentally different, even opposite, development.

However, all these peculiarities of Western capitalism have derived their significance in the last analysis only from their association with the capitalistic organization of labour. Even what is generally called commercialization, the development of negotiable securities and the rationalization of speculation, the exchanges, etc., is connected with it. For without the rational capitalistic organization of labour, all this, so far as it was possible at all, would have nothing like the same significance, above all for the social structure and all the specific problems of the modern Occident connected with it. Exact calculation—the basis of everything else—is only possible on a basis of free labour.†

And just as, or rather because, the world has known no rational organization of labour outside the modern Occident, it has known no rational socialism. Of course, there has been civic economy, a civic food-supply policy, mercantilism and welfare policies of princes, rationing, regulation of economic life, protectionism, and *laissez-faire* theories (as in China). The world has also known socialistic and

* Naturally the difference cannot be conceived in absolute terms. The politically oriented capitalism (above all tax-farming) of Mediterranean and Oriental antiquity, and even of China and India, gave rise to rational, continuous enterprises whose bookkeeping—though known to us only in pitiful fragments—probably had a rational character. Furthermore, the politically oriented adventurers' capitalism has been closely associated with rational bourgeois capitalism in the development of modern banks, which, including the Bank of England, have for the most part originated in transactions of a political nature, often connected with war. The difference between the characters of Paterson, for instance—a typical promoter—and of the members of the directorate of the Bank who gave the keynote to its permanent policy, and very soon came to be known as the "Puritan usurers of Grocers' Hall," is characteristic of it. Similarly, we have the aberration of the policy of this most solid bank at the time of the South Sea Bubble. Thus the two naturally shade off into each other. But the difference is there. The great promoters and financiers have no more created the rational organization of labour than—again in general and with individual exceptions—those other typical representatives of financial and political capitalism, the Jews. That was done, typically, by quite a different set of people.

† For Weber's discussion of the ineffectiveness of slave labour, especially so far as calculation is concerned, see his essay, "Agrarverhältnisse im Altertum," in the volume *Gessamelte Aufsätze zur Sozial—und Wirtschaftsgeschichte.*—TR.

communistic experiments of various sorts: family, religious, or military communism, State socialism (in Egypt), monopolistic cartels, and consumers' organizations. But although there have everywhere been civic market privileges, companies, guilds, and all sorts of legal differences between town and country, the concept of the citizen has not existed outside the Occident, and that of the bourgeoisie outside the modern Occident. Similarly, the proletariat as a class could not exist, because there was no rational organization of free labour under regular discipline. Class struggles between creditor and debtor classes; landowners and the landless, serfs, or tenants; trading interests and consumers or landlords, have existed everywhere in various combinations. But even the Western mediaeval struggles between putters-out and their workers exist elsewhere only in beginnings. The modern conflict of the large-scale industrial entrepreneur and free-wage labourers was entirely lacking. And thus there could be no such problems as those of socialism.

Hence in a universal history of culture the central problem for us is not, in the last analysis, even from a purely economic view-point, the development of capitalistic activity as such, differing in different cultures only in form: the adventurer type, or capitalism in trade, war, politics, or administration as sources of gain. It is rather the origin of this sober bourgeois capitalism with its rational organization of free labour. Or in terms of cultural history, the problem is that of the origin of the Western bourgeois class and of its peculiarities, a problem which is certainly closely connected with that of the origin of the capitalistic organization of labour, but is not quite the same thing. For the bourgeois as a class existed prior to the development of the peculiar modern form of capitalism, though, it is true, only in the Western hemisphere.

Now the peculiar modern Western form of capitalism has been, at first sight, strongly influenced by the development of technical possibilities. Its rationality is to-day essentially dependent on the calculability of the most important technical factors. But this means fundamentally that it is dependent on the peculiarities of modern science, especially the natural sciences based on mathematics and exact and rational experiment. On the other hand, the development of these sciences and of the technique resting upon them now receives important stimulation from these capitalistic interests in its practical economic application. It is true that the origin of Western science cannot be attributed to such interests. Calculation, even with decimals, and algebra have been carried on in India, where the decimal system was invented. But it was only made use of by developing cap-

italism in the West, while in India it led to no modern arithmetic or book-keeping. Neither was the origin of mathematics and mechanics determined by capitalistic interests. But the *technical* utilization of scientific knowledge, so important for the living conditions of the mass of people, was certainly encouraged by economic considerations, which were extremely favourable to it in the Occident. But this encouragement was derived from the peculiarities of the social structure of the Occident. We must hence ask, from *what* parts of that structure was it derived, since not all of them have been of equal importance?

Among those of undoubted importance are the rational structures of law and of administration. For modern rational capitalism has need, not only of the technical means of production, but of a calculable legal system and of administration in terms of formal rules. Without it adventurous and speculative trading capitalism and all sorts of politically determined capitalisms are possible, but no rational enterprise under individual initiative, with fixed capital and certainty of calculations. Such a legal system and such administration have been available for economic activity in a comparative state of legal and formalistic perfection only in the Occident. We must hence inquire where that law came from. Among other circumstances, capitalistic interests have in turn undoubtedly also helped, but by no means alone nor even principally, to prepare the way for the predominance in law and administration of a class of jurists specially trained in rational law. But these interests did not themselves create that law. Quite different forces were at work in this development. And why did not the capitalistic interests do the same in China or India? Why did not the scientific, the artistic, the political, or the economic development there enter upon that path of rationalization which is peculiar to the Occident?

For in all the above cases it is a question of the specific and peculiar rationalism of Western culture. Now by this term very different things may be understood, as the following discussion will repeatedly show. There is, for example, rationalization of mystical contemplation, that is of an attitude which, viewed from other departments of life, is specifically irrational, just as much as there are rationalizations of economic life, of technique, of scientific research, of military training, of law and administration. Furthermore, each one of these fields may be rationalized in terms of very different ultimate values and ends, and what is rational from one point of view may well be irrational from another. Hence rationalizations of the most varied character have existed in various departments of life and in all areas of culture. To

characterize their differences from the view-point of cultural history it is necessary to know what departments are rationalized, and in what direction. It is hence our first concern to work out and to explain genetically the special peculiarity of Occidental rationalism, and within this field that of the modern Occidental form. Every such attempt at explanation must, recognizing the fundamental importance of the economic factor, above all take account of the economic conditions. But at the same time the opposite correlation must not be left out of consideration. For though the development of economic rationalism is partly dependent on rational technique and law, it is at the same time determined by the ability and disposition of men to adopt certain types of practical rational conduct. When these types have been obstructed by spiritual obstacles, the development of rational economic conduct has also met serious inner resistance. The magical and religious forces, and the ethical ideas of duty based upon them, have in the past always been among the most important formative influences on conduct. In the studies collected here we shall be concerned with these forces.*

* That is, in the whole series of *Aufsätze zur Religionssoziologie,* not only in the essay here translated. . . .—TR.

Werner Sombart

1863–1941

Werner Sombart, who with Max Weber belonged to the third generation of the historical school of economics in Germany, was a brilliant man of idiosyncratic method. In contrast to Gustave Schmoller, whose meticulous research eventuated in limited conclusions, and to Weber, who employed original research to produce sweeping generalizations, Sombart employed secondary materials to arrive at large conclusions. In his major work, Der moderne Kapitalismus, *he traced in several thousand pages the history of capitalism from its start to the "high capitalism" of 1760-1914. In his view, a capitalist was a "historical individual," partly accidental and important during only a portion of man's history.*

The boldness of Sombart's vision displays itself also in The Jews and Modern Capitalism, *which examined Weber's hypothesis about the rise of capitalism from another angle. For Weber's Calvinists, Sombart substituted the Jews as the operating force in the creation of the impersonal and rational spirit of contemporary capitalism. His argument, if flimsy, was also ingenious. During the fifteenth and sixteenth centuries, Jews were expelled from Spain, Portugal, a number of German, and some Italian, cities. They moved north to Frankfurt, Hamburg, Amsterdam, and England. And with them shifted the focus of commercial activity.*

Jews were responsible for both the outward form and the inner spirit of capitalism. Take externals first. They monopolized the luxury trade. They took a substantial part in colonization. They were indispensable in the founding of the modern state. They invented a whole armory of capitalist devices: securities markets, modern credit instruments, nineteenth-century stock promotion, installment selling, advertising, and the contemporary newspaper. In Sombart's opinion,

". . . the attitude of the Talmud . . . is friendly . . . towards exchange, and the Jews adopted it throughout the Middle Ages."

Still more important was the Jewish spiritual contribution. Here the Jewish religion was the major influence. According to Sombart (himself unable to read Hebrew), the Jewish religion ". . . has the same leading ideas as capitalism." The Jewish religion was a contract between man and God in which appropriate behavior brought proper reward. The Jewish religion rationalized all of life and prepared the way naturally for capitalist transactions. Restraint and asceticism marked all its teachings. Thus, after all, Judaism and Puritanism were so close that one could say that ". . . Puritanism is Judaism." Finally, the Jewish religion fostered intellectuality and teleology. The Jew thought carefully and acted always with a purpose at hand.

Sombart lived long enough to become a Nazi. How much anti-Semitism influenced this 1911 volume is necessarily uncertain. It can be justly said that Sombart's discussion of what he labeled as specifically Jewish qualities was scornful and his passages on Jews as a race were ambiguous at best.

This passage is from The Jews and Modern Capitalism, *translated by M. Epstein, pp. 3-10, 21. Reprinted by permission of the publisher, The Free Press of Glencoe. Copyright, 1951, by The Free Press.*

Jewish Influence

Two possible methods may be used to discover to what extent any group of people participated in a particular form of economic organization. One is the statistical; the other may be termed the genetic.

By means of the first we endeavour to ascertain the actual number of persons taking part in some economic activity—say, those who establish trade with a particular country, or who found any given industry—and then we calculate what percentage is represented by the members of the group in which we happen to be interested. There is no doubt that the statistical method has many advantages. A pretty clear conception of the relative importance for any branch of commerce of, let us say, foreigners or Jews, is at once evolved if we are able to show by actual figures that 50 or 75 per cent. of all the persons engaged in that branch belong to either the first or the second category named. More especially is this apparent when statistical information is forthcoming, not only as to the number of persons but also concerning other or more striking economic factors—

e.g., the amount of paid-up capital, the quantity of the commodities produced, the size of the turnover, and so forth. It will be useful, therefore, to adopt the statistical method in questions such as the one we have set ourselves. But at the same time it will soon become evident that by its aid alone the complete solution cannot be found. In the first place, even the best statistics do not tell us everything; nay, often the most important aspect of what we are trying to discover is omitted. Statistics are silent as to the dynamic effects which strong individualities produce in economic, as indeed in all human life—effects which have consequences reaching far beyond the limits of their immediate surroundings. Their actual importance for the general tendency of any particular development is greater far than any set of figures can reveal. Therefore the statistical method must be supplemented by some other.

But more than this. The statistical method, owing to lack of information, cannot always be utilized. It is indeed a lucky accident that we possess figures recording the number of those engaged in any industry or trade, and showing their comparative relation to the rest of the population. But a statistical study of this kind, on a large scale, is really only a possibility for modern and future times. Even then the path of the investigator is beset by difficulties. Still, a careful examination of various sources, including the assessments made by Jewish communities on their members, may lead to fruitful results. I hope that this book will give an impetus to such studies, of which, at the present time, there is only one that is really useful—the enquiry of Sigmund Mayr, of Vienna.

When all is said, therefore, the other method (the genetic), to which I have already alluded, must be used to supplement the results of statistics. What is this method? We wish to discover to what extent a group of people (the Jews) influence or have influenced the form and development of modern economic life—to discover, that is, their qualitative or, as I have already called it, their dynamic importance. We can do this best of all by enquiring whether certain characteristics that mark our modern economic life were given their first form by Jews, *i.e.*, either that some particular form of organization was first introduced by the Jews, or that some well-known business principles, now accepted on all hands as fundamental, are specific expressions of the Jewish spirit. This of necessity demands that the history of the factors in economic development should be traced to their earliest beginnings. In other words, we must study the childhood of the modern capitalistic system, or, at any rate, the age in which it received its modern form. But not the childhood only: its

whole history must be considered. For throughout, down to these very days, new elements are constantly entering the fabric of capitalism and changes appear in its characteristics. Wherever such are noted our aim must be to discover to whose influence they are due. Often enough this will not be easy; sometimes it will even be impossible; and scientific imagination must come to the aid of the scholar.

Another point should not be overlooked. In many cases the people who are responsible for a fundamental idea or innovation in economic life are not always the inventors (using that word in its narrowest meaning). It has often been asserted that the Jews have no inventive powers; that not only technical but also economic discoveries were made by non-Jews alone, and that the Jews have always been able cleverly to utilize the ideas of others. I dissent from this general view in its entirety. We meet with Jewish inventors in the sphere of technical science, and certainly in that of economics, as I hope to show in this work. But even if the assertion which we have mentioned were true, it would prove nothing against the view that Jews have given certain aspects of economic life the specific features they bear. In the economic world it is not so much the inventors that matter as those who are able to apply the inventions: not those who conceive ideas (*e.g.*, the hire-purchase system) as those who can utilize them in everyday life.

Before proceeding to the problem before us—the share of the Jews in the work of building up our modern capitalistic system—we must mention one other point of importance. In a specialized study of this kind Jewish influence may appear larger than it actually was. That is in the nature of our study, where the whole problem is looked at from only one point of view. If we were enquiring into the influence of mechanical inventions on modern economic life the same would apply: in a monograph that influence would tend to appear larger than it really was. I mention this point, obvious though it is, lest it be said that I have exaggerated the part played by the Jews. There were undoubtedly a thousand and one other causes that helped to make the economic system of our time what it is. Without the discovery of America and its silver treasures, without the mechanical inventions of technical science, without the ethnical peculiarities of modern European nations and their vicissitudes, capitalism would have been as impossible as without the Jews.

In the long story of capitalism, Jewish influence forms but one chapter. Its relative importance to the others I shall show in the new edition of my *Modern Capitalism*, which I hope to have ready before long.

This *caveat* will, I trust, help the general reader to a proper appreciation of the influence of Jews on modern economic life. But it must be taken in conjunction with another. If on the one hand we are to make some allowance, should our studies apparently tend to give Jews a preponderating weight in economic affairs, on the other hand, their contribution is very often even larger than we are led to believe. For our researches can deal only with one portion of the problem, seeing that all the material is not available. Who to-day knows anything definite about the individuals, or groups, who founded this or that industry, established this or that branch of commerce, first adopted this or that business principle? And even where we are able to name these pioneers with certainty, there comes the further question, were they Jews or not?

Jews—that is to say, members of the people who profess the Jewish faith. And I need hardly add that although in this definition I purposely leave out any reference to race characteristics, it yet includes those Jews who have withdrawn from their religious community, and even descendants of such, seeing that historically they remain Jews. This must be borne in mind, for when we are determining the influence of the Jew on modern economic life, again and again men appear on the scene as Christians, who in reality are Jews. They or their fathers were baptized, that is all. The assumption that many Jews in all ages changed their faith is not far fetched. We hear of cases from the earliest Middle Ages; in Italy, in the 7th and 8th centuries; at the same period in Spain and in the Merovingian kingdoms; and from that time to this we find them among all Christian nations. In the last third of the 19th century, indeed, wholesale baptisms constantly occurred. But we have reliable figures for the last two or three decades only, and I am therefore inclined to doubt the statement of Jacob Fromer that towards the end of the twenties in the last century something like half the Jews of Berlin had gone over to Christianity. Equally improbable is the view of Dr. Werner, Rabbi in Munich, who, in a paper which he recently read, stated that altogether 120,000 Jews have been baptized in Berlin. The most reliable figures we have are all against such a likelihood. According to these, it was in the nineties that apostasy on a large scale first showed itself, and even then the highest annual percentage never exceeded 1.28 (in 1905), while the average percentage per annum (since 1895) was 1. Nevertheless, the number of Jews in Berlin who from 1873 to 1906 went over to Christianity was not small; their total was 1869 precisely.

The tendency to apostasy is stronger among Austrian Jews, especially among those of Vienna. At the present time, between five and

six hundred Jews in that city renounce their faith every year, and from 1868 to 1903 there have been no less than 9085. The process grows apace; in the years 1868 to 1879 there was on an average one baptism annually for every 1200 Jews; in the period 1880 to 1889 it was one for 420-430 Jews; while between 1890 and 1903 it had reached one for every 260-270.

But the renegade Jews are not the only group whose influence on the economic development of our time it is difficult to estimate. There are others to which the same applies. I am not thinking of the Jewesses who married into Christian families, and who, though they thus ceased to be Jewish, at any rate in name, must nevertheless have retained their Jewish characteristics. The people I have in mind are the crypto-Jews, who played so important a part in history, and whom we encounter in every century. In some periods they formed a very large section of Jewry. But their non-Jewish pose was so admirably sustained that among their contemporaries they passed as Christians or Mohammedans. We are told, for example, of the Jews of the South of France in the 15th and 16th centuries, who came originally from Spain and Portugal (and the description applies to the Marannos everywhere): "They practised all the outward forms of Catholicism; their births, marriages and deaths were entered on the registers of the church, and they received the sacraments of baptism, marriage and extreme unction. Some even took orders and became priests." No wonder then that they do not appear as Jews in the reports of commercial enterprises, industrial undertakings and so forth. Some historians even to-day speak in admiring phrase of the beneficial influence of Spanish or Portuguese "immigrants." So skilfully did the crypto-Jews hide their racial origin that specialists in the field of Jewish history are still in doubt as to whether a certain family was Jewish or not. In those cases where they adopted Christian names, the uncertainty is even greater. There must have been a large number of Jews among the Protestant refugees in the 17th century. General reasons would warrant this assumption, but when we take into consideration the numerous Jewish names found among the Huguenots the probability is strong indeed.

Finally, our enquiries will not be able to take any account of all those Jews who, prior to 1848, took an active part in the economic life of their time, but who were unknown to the authorities. The laws forbade Jews to exercise their callings. They were therefore compelled to do so, either under cover of some fictitious Christian person or under the protection of a "privileged" Jew, or they were forced to resort to some other trick in order to circumvent the law.

Reliable authorities are of opinion that the number of Jews who in many a town lived secretly in this way must have been exceedingly large. In the forties of last century, for example, it is said that no less than 12,000 Jews, at a moderate estimate, were to be found in Vienna. The wholesale textile trade was at that time already in their hands, and entire districts in the centre of the city were full of Jewish shops. But the official list of traders of 1845 contained in an appendix the names of only sixty-three Jews, who were described as "tolerated Jewish traders," and these were allowed to deal only in a limited number of articles.

But enough. My point was to show that, for many and various reasons, the number of Jews of whom we hear is less than those who actually existed. The reader should therefore bear in mind that the contribution of the Jews to the fabric of modern economic life will, of necessity, appear smaller than it was in reality.

What that contribution was we shall now proceed to show. . . .

My own view is, as I may say in anticipation, that the importance of the Jews was twofold. On the one hand, they influenced the outward form of modern capitalism; on the other, they gave expression to its inward spirit. Under the first heading, the Jews contributed no small share in giving to economic relations the international aspect they bear to-day; in helping the modern state, that framework of capitalism, to become what it is; and lastly, in giving the capitalistic organization its peculiar features, by inventing a good many details of the commercial machinery which moves the business life of to-day, and by co-operating in the perfecting of others. Under the second heading, the importance of the Jews is so enormous because they, above all others, endowed economic life with its modern spirit; they seized upon the essential idea of capitalism and carried it to its fullest development.

John R. Commons

1862–1945

In the hands of Thorstein Veblen, institutional economics was a collection of fireworks, some of them damp squibs, many of them brilliant illuminations. The trouble with the Veblenite method was simple: only Veblen was capable of using it. If institutional economics were to constitute a school, a common intellectual bond that tied together a group of economists, then some more prosaic examination of society and some more quantifiable definition of institution than Veblen's "habit of thought" were required.

In a measure John R. Commons filled these needs. Commons was an unsuccessful student at Oberlin and a flat failure in his first efforts as a teacher. In the true spirit of Veblen, he drifted from job to job, partly because he was a wretched lecturer, and partly because his political opinions were heterodox. As one of the pioneer experimenters with field-work supplements to lectures, he took his students to factories, courts, and prisons. But finally he had better luck than Veblen ever did. His old teacher, Richard T. Ely, made a place for him in 1904 at the University of Wisconsin.

He came to the University at the right moment. The elder Robert La Follete, then the state's Progressive governor, needed help in drafting and administering a new system of social legislation. In many ways his contribution echoed that of the Webbs in England. He drafted a civil-service law, helped to extend public-utility legislation, promoted small-loan legislation, and in 1932 drafted Wisconsin's unemployment reserve act. Wisconsin social legislation was widely copied by other states and served in the Roosevelt New Deal as the prototype by federal statutes as well.

An indefatigable writer, Commons contributed a ten-volume Documentary History of American Industrial Society *and a history of labor.*

His major theoretical production was Institutional Economics, *published in 1934. Despite its title, Commons's definition of institution was not the same as Veblen's. Commons's definition, "collective action in control of individual action," exemplified his belief in the mutual dependence of men, the need for co-operation, the conflicts of interest created by private property, and the necessity of collective action to reconcile these conflicts in the general interest.*

Commons believed that the courts took a crucial part in the actual settlement of social arrangements. In his Legal Foundations of Capitalism, *he carefully traced this line of influence. It was his judgment that economists who concentrated on prices and market transactions missed two other highly significant varieties of transaction. One was the managerial transaction between official and citizen. A second was rationing in which superiors, inferiors, and courts all participated. Corporate dividends and union dues were examples of rationing transactions. All varieties of transactions converged upon the going concern, the very center of Commons's analysis.*

Commons's variety of institutionalism has had relatively little impact upon the mainstream of economic thought, but it has a momentous influence upon the American version of the welfare state. Here the example of Wisconsin and the work of the institutional economists at its university have rivaled the very different line of influence which derives from John Maynard Keynes.

This selection is taken from Volume I of Institutional Economics *(reprinted in 1959 by the University of Wisconsin Press), pp. 1-9. Used by permission of the Regents of the University of Wisconsin.*

The Point of View

My point of view is based on my participation in collective activities, from which I here derive a theory of the part played by collective action in control of individual action. The view may or may not fit other people's ideas of institutional economics. The comments and criticism by readers and students of both my *Legal Foundations of Capitalism* and the various mimeographed copies and revisions of this book on Institutional Economics, to the effect that they could not understand my theories nor what I was driving at, and that my theories were so personal to myself that perhaps nobody could understand them, leads me to set aside personal inhibitions and boldly to treat myself as an Objective Ego, participating, for fifty years, in many forms of collective action.

In this first chapter, and again in the section on accidents and unemployment, I set forth a record of this participation. I hold that this book is not so much a theory personal to myself as it is a theory conforming to many experiments in collective action and requiring therefore a reconciliation with the individualistic and collectivistic theories of the past two hundred years.

My participation began with my membership, in 1883, in the local typographical union of Cleveland, Ohio. I came to the job with all the naïveté and curiosity of a "country printer" who had obtained the all-round training of seven years in a small newspaper and job office in a small village of rural Indiana. This new experience of working twelve hours a day, seven days a week for about $15 per week, and the efforts of the union to control both the employer and printers of a great daily newspaper, and then my travels as a tramp printer, prior to 1886, converted me from a vague idea of preparing myself for journalism into a plan of studying the whole problem of economics in every direction that I could.

My first reading in economic theory was Henry George's individualistic and theological *Progress and Poverty,* recommended to me by a fellow-printer. I never was able to reach conclusions deductively, as George had done. I resented his condemnation of trade unions,* which, in my own case, I knew resulted in conditions of employment preferable to those existing in the open shop across the way.

My first introduction to the problem of the relation of law to economics was in the classes of Professor Ely† at Johns Hopkins University, 1888. In 1899 I investigated, for the United States Industrial Commission, the subject of Immigration, which took me to the headquarters of practically all the national trade unions. This led to a further investigation of restrictions of output by capitalistic and labor organizations. After 1901 I participated in labor arbitration with the National Civic Federation, representing "labor, employers, and the public," and, in 1906, with the same organization, in an investigation of municipal and private operations of public utilities.

In 1905 I drafted a civil service law and in 1907 a public utility law at the request of Governor Robert M. La Follette of Wisconsin. The public utility law was designed to ascertain and maintain reasonable values and reasonable practices by the local public utility corporations. In 1906 and 1907, I investigated with others, for the Russell

* George, Henry, *Progress and Poverty* (1879). Reference to his *Complete Works* (1906-1911).

† Cf. Ely, Richard T., *Property and Contract in Their Relation to the Distribution of Wealth* (2 vols., 1914).

Sage Foundation, labor conditions in the steel industry at Pittsburgh. During 1910 and 1911, when the Socialists were in control of the city of Milwaukee, I organized for them a Bureau of Economy and Efficiency. In 1911 I drafted, and then participated for two years in the administration of, an Industrial Commission law for the state of Wisconsin, with the purpose of ascertaining and enforcing reasonable rules and practices in the relations between employers and employees. From 1913 to 1915 I was a member of the Industrial Relations Commission appointed by President Wilson. In 1923 Professor Fetter, Professor Ripley, and I represented four Western states before the Federal Trade Commission on the Pittsburgh Plus case of discrimination practiced by the United States Steel Corporation.

In 1923 and 1924, as president of the National Monetary Association, I investigated the workings of the Federal Reserve system in New York and Washington. This was followed, in 1928, by aid given to Congressman Strong of Kansas on his price stabilization bill before the House Committee on money and currency.

Meanwhile, between 1924 and 1926, I administered for two years, as chairman, a voluntary plan of unemployment insurance in the clothing industry of Chicago. This plan was similar to that which I had previously devised, in 1923, for legislation. The plan, with improvements, was finally enacted into law in Wisconsin in 1932.

I do not see how any one going through these fifty years of participation in experiments could fail to arrive at two conclusions: conflict of interests and collective action. Even the state and city turned out to be collective action of those who were in possession of sovereignty.*

Meanwhile, I was necessarily studying hundreds of decisions, mainly of the United States Supreme Court and of Labor and Commercial Arbitration tribunals, endeavoring to discover on what principles these tribunals decided disputes of conflicting interests—the Court acting under the clauses of the Constitution relating to due process of law, to the taking of property and liberty, and to equal protection of the laws. These decisions were discussed in my *Legal Foundations of Capitalism* (1924), to which the present volume is a related study of the theories of economists. I found that few of the economists had taken the point of view here developed, or had made contributions that would make it possible to fit legal institutions into

* I am permitted by the editor of the *American Economic Review* to use an article in the June number, 1932, as the substance of what follows. See also the comments by Professor Joseph E. Shafer, in an earlier number of the same *Review*, which have led me to state this personal point of view.

economics or into this constitutional scheme of American judicial sovereignty.

The main thing which I noticed, while working with the lawyers in drafting a public utility law in 1907, was the change effected by the Supreme Court of the United States, after 1890, in the meaning of the word "property." The change added to the earlier meaning of "corporeal" property in the Slaughter House Cases, 1872, and the Munn Case, 1876, the new meaning of "intangible" property which the Court gave to the word property after 1890. The additional meaning was rounded out by several decisions between 1897 and 1904.

The meaning of intangible property, according to these decisions, and as I have further developed its meaning since the publication of my *Legal Foundations of Capitalism*, is: the right to fix prices by withholding from others what they need but do not own. Intangible property also includes the meaning of liberty, which previously was treated separately. All Court decisions since 1890 on reasonable value will be found to have turned on this meaning of intangible property and the corresponding conflicts of interest coming before the courts.

Thorstein Veblen, to his great credit, was introducing the same idea of intangible property into economics during the period following 1900, and it was mainly on that ground that he became known as an "institutional" economist. But the difference was that Veblen obtained his case material from the testimony of financial magnates before the United States Industrial Commission of 1900, so that his notion of intangible property ended in the Marxian extortion and exploitation. But my sources were my participation in collective action, in drafting bills, and my necessary study, during these participations, of the decisions of the Supreme Court covering the period; so that my notion of intangible property ends in the common-law notion of reasonable value.

On analyzing this notion, not only in Supreme Court cases but also in collective bargaining, labor arbitration and commercial arbitration cases, I discovered that, of course, the decisions of these tribunals began with conflict of interests, then took into account the evident idea of dependence of conflicting interests on each other; then reached a decision by the highest authority, the Supreme Court or the labor and commercial arbitration courts, endeavoring to bring—not harmony of interests—but order out of the conflict of interests, known by the Court as "due process of law."

Meanwhile I was trying to find what could be the unit of investigation which would include these three constituents of conflict, dependence, and order. After many years I worked out the conclusion

that they were found combined together only in the formula of a *transaction,* as against the older concepts of commodities, labor, desires, individuals, and exchange.

So I made the transaction the ultimate unit of economic investigation, a unit of transfer of legal control. This unit enabled me to classify all the economic decisions of the courts and arbitration tribunals under the variable economic factors involved in transactions as they actually are made. This classification permitted an historical development, showing how it was that the courts, as well as arbitration tribunals, ruled out what they deemed, at the time, to be coercive and unreasonable values arrived at in transactions, and approved what they deemed, under the circumstances, to be persuasive transactions and reasonable values.

Going back over the economists from John Locke to the orthodox school of the present day, I found that they held two conflicting meanings of wealth, namely: that wealth was a *material* thing, and again that it was the *ownership* of that thing. But ownership, at least in its modern meaning of intangible property, means power to *restrict* abundance in order to maintain prices; while the material things arise from power to *increase* the abundance of things by efficiency in production, even in overproduction. Hence, ownership becomes the foundation of institutional economics, but material things are the foundations of the classical and hedonic economics, whose "corporeal" meaning of property was equivalent to the material thing owned.

Not until it became vaguely felt by the heterodox economists in the middle of the Nineteenth Century—such as Marx, Proudhon, Carey, Bastiat, MacLeod—that ownership and materials were not the same thing, were the beginnings laid for institutional economics. These economists were vague in that they had the older idea of "corporeal" property (even yet retained by economists), which identifies ownership with the materials owned, or distinguishes only "corporeal property" from the "incorporeal property" which is contract, or debt. Hence, it was not until the new idea of "intangible property" arose out of the customs and actual terminology of business magnates in the last quarter of the Nineteenth Century that it was possible for Veblen and the Supreme Court to make the new distinctions which clearly separate from each other not only the ownership of materials and the ownership of debts, but also the ownership of expected opportunities to make a profit by withholding supply until the price is persuasively or coercively agreed upon. This ownership of expected opportunities is "intangible" property.

Thus, institutional economics consists partly in going back through the court decisions of several hundred years, wherein collective action, not only by legislation but also by common-law decisions interpreting the legislation (culminating in the common-law method of the Supreme Court of the United States), takes over, by means of these decisions, the customs of business or labor, and enforces or restrains individual action, wherever it seems to the Court favorable or unfavorable to the public interest and private rights.

Such an interpretation also consists in going back through the writings of economists from John Locke to the Twentieth Century, to discover wherein they have or have not introduced collective action. Collective action, as well as individual action, has always been there; but from Smith to the Twentieth Century it has been excluded or ignored, except as attacks on trade unions or as postscripts on ethics or public policy. The problem now is not to create a different kind of economics—"institutional" economics—divorced from preceding schools, but how to give to collective action, in all its varieties, its due place throughout economic theory.

In my judgment this collective control of individual transactions is the contribution of institutional economics to the whole of a rounded-out theory of Political Economy, which shall include and give a proper place to all the economic theories since John Locke, who first laid the theoretical foundations for the labor theories of value and for modern capitalism.

The first of the economists to make conflict of interests universal in economics was David Hume in his history of *scarcity,* rather than Locke and Smith in their theory of divine *abundance.* But Hume, followed by Malthus, also made scarcity the basis of coöperation, fellow feeling, justice, and property: If there were unlimited abundance of everything there would be no self-interest, no injustice, no property rights, no ethics.

It is only scarce things, actual or expected, that are wanted and desired. Since they are scarce, the acquisition of them is regulated by the collective action which creates the rights and duties of property and liberty without which there would be anarchy. Since this scarcity is a fact recognized by economists, they have already presupposed the institution of property in their very concepts of wants and desires. Institutional economics openly avows scarcity, instead of taking it for granted, and gives to collective action its proper place of deciding conflicts and maintaining order in a world of scarcity, private property, and the resulting conflicts.

I make conflict of interests predominant in transactions. But I con-

clude that this cannot be allowed to be the only principle, because there are also mutual dependence and the maintenance of order by collective action. I start, like economists, with scarcity, as universal for all economic theory. Then I proceed, as did Hume and Malthus, to show that out of scarcity derives not only conflict, but also the collective action that sets up order on account of mutual dependence.

Order, or what I call working rules of collective action, a special case of which is "due process of law," is itself quite changeable in the history of institutions; and I find this order concretely represented in the various rationing transactions, which would be needless in a world of abundance.

It is for this reason of scarcity that I make efficiency also a universal principle, because it overcomes scarcity by coöperation. But coöperation does not arise from a *presupposed* harmony of interests, as the older economists believed. It arises from the necessity of *creating a new harmony* of interests—or at least order, if harmony is impossible—out of the conflict of interests among the hoped-for coöperators. It is the negotiational psychology of persuasion, coercion, or duress. The greatest American piece of actual coöperation, latterly under ill repute, is the holding companies which suppress conflicts, if persuasion proves inadequate. A more universal coöperation, suppressing conflict in behalf of order, is proposed by Communism, Fascism, or Nazism. These have found their own way of submerging conflicts of interest. Hence, harmony is not a presupposition of economics—it is a consequence of collective action designed to maintain rules that shall govern the conflicts.

All that Communism, Fascism, or Nazism needs to abolish historic capitalism is to abolish bargaining transactions and to substitute for them the managing and rationing of a planned economy.

This is why I relegate the classical and communistic engineering economics and the Austrian home economics to the *future*, and develop a negotiational psychology as the present transfer of legal control to take effect in the future production, consumption, or labor process. Production and consumption cannot be carried on without first obtaining legal control. Possibly this changes the idea of causation. It places causation definitely in the future instead of in the past, where it was placed by the labor theories of Locke and the classical and communist economists; or instead of in the present sensations of pain and pleasure of production or consumption of the hedonic economists since the time of Bentham. It becomes a *volitional* theory of future consequences of present negotiations and transfers of legal control, determining whether production shall go on or slow down or

stop, or determining the extent to which future consumption will be expanded or contracted or pauperized.

Perhaps the question turns on the *kind* of psychology implied in the terms, wants and desires. If I look at or participate with people actually engaged in transactions—as do the courts when they analyze or impute motives to disputants—I find futurity always there, not in production or consumption, but in the persuasions or coercions of bargaining transactions, the commands and obedience of managerial transactions, and the arguments and pleadings of rationing transactions, which will ultimately determine production and consumption. In these negotiations and decisions, which are of the essence of institutional economics, it is always *future* production and *future* consumption that are at stake, because the negotiations determine the legal control which must precede physical control.

If this negotiational psychology, as others have alleged, changes the whole problem of causation in economics and the whole of all the definitions of wants and desires, I can only say that it is what actually is there and should be incorporated as one of the multiple causations to be watched by economists. I think this is being done; but when the older schools and their modern strict conformists worked out their theories they tried to select a single principle of causation, like labor or desire, whereas modern theories are certainly theories of multiple causation. Hence I do not think that "institutional causation" excludes other causations; but it is the volitional economics which operates in all kinds of transactions which always look forward to future consequences. Institutional economics takes its place as the proprietary economics of rights, duties, liberties, and exposures, which, as I shall endeavor to show throughout, give to collective action its due place in economic theorizing.

I do not see that there is anything new in this analysis. Everything herein can be found in the work of outstanding economists for two hundred years. It is only a somewhat different point of view. The things that have changed are the interpretations, the emphasis, the weights assigned to different ones of the thousands of factors which make up the world-wide economic process. All of these are traceable to the dominant political and economic problems by which economists were faced at the time and place in which they wrote, and to their different social philosophies in the changing conflicts of interest of two centuries.

What I have tried to do is to work out a system of thought that shall give due weight to all economic theories, modified by my own experience. This would have been impossible except for my past

thirty years in this thrilling state of Wisconsin, with two such leaders as Robert M. La Follette, the individualist, and Victor Berger, the socialist, and with the generosity of its people in supporting this magnificent University. Wisconsin is a miniature of world-wide conflicts of interest and of efforts to obtain by investigation reasonable values and reasonable practices out of economic conflict. The effort would have been impracticable without the continuance of the early civil service law insisted on by Governor La Follette, which has recently been jeopardized by the incoming Democrats. The initiative of the state, however, has been restrained, partly by decisions of the Supreme Court of the United States, partly by national administrative bodies taking jurisdiction of state affairs, and recently by the unprecedented nationalistic experiments in which all of us are now participating.

I confess that this book is burdened by much repetition. But this I could not help, partly on account of unfamiliarity of students and readers with the novelty of the subject and partly because, in a theory that gives due weight to the many sources of multiple causation, a single concept or principle recurs at every point where one or the other many changeable causes infringe. If a preceding cause, which I thought had been expounded, is omitted or forgotten at this different angle of vision of the same thing, then the proper weight of the instant cause is distorted, and the reader or student calls it to my attention. For this reason I am compelled to repeat it anyhow. My point of view as an experimentalist is therefore quite the same as that of an arbitrator, a legislator, a court, an administrator—endeavoring to decide a dispute where many conflicting interests with conflicting principles, causes, or purposes, must be made to work together peaceably, if possible.

Earlier contemporary articles and books which I published during these years of experiment, especially after 1899, many of them in coöperation with my students or with actual participants, furnish most of the data for the theories of this volume. . . .

Selig Perlman

1888–

The American labor movement has saddened several generations of native and foreign radicals. American unions have proved obstinately resistant to Marxism of any variety. Union members by and large refuse to classify themselves as proletarians and place themselves in the middle class. The business unionism of Samuel Gompers, epitomized in his single-word response, "more," to the question what does labor want, has had infinitely more appeal in the twentieth century than any notion of the trade union as a revolutionary organization devoted to the transformation of the relationships between labor and capital or even the elimination of capitalism itself.

Selig Perlman's A History of Trade Unionism in the United States *was an effort to explain this historical puzzle. In Europe, advancing industrialism has been paralleled by class-conscious trade unions. Why did not a similar phenomenon accompany the economic expansion of the United States? Perlman looked at the special circumstances of American economic history for his answer, and found that part of the answer was in the characteristic bargaining approach of American workers. Starting with no "general theory of industrial society," the American worker is not especially eager to supplant his employer, but he is eager to make the best possible bargain for himself. Hence, as Perlman put it, the American union endeavors to suppress whatever threatens a good wage bargain, "convict labor," "foreign labor," "green" workers, and so on. Other elements in the specifically American experience have been the widening of the market in the train of westward expansion and the threat of regional competition.*

Perlman concluded that labor turned to "ultimate goals" only when times were bad. Then, briefly, its leaders might toy with "self-employment" or "co-operation." In good times, labor unions rested con-

tent with "proximate" objectives centered on the usual goals of business unionism: shorter hours, higher wages, and improved working conditions.

Perlman spent the bulk of his teaching and writing career at the University of Wisconsin. He was a leading member of that group of institutional economists who as followers of Veblen took the task of economics to be the understanding of the major habits of thought and the manner in which they evolved of their own society. Closely associated with the Progressive Administrations of the La Follettes, these economists made Wisconsin a model laboratory of social experiment in workmen's compensation, social security, and public-utility regulation. One of the major influences on the New Deal, the Wisconsin institutional school constituted a specifically American contribution to the study of economic phenomena and the formulation of economic policy.

The present selection is taken from A History of Trade Unionism in the United States *(New York: Augustus Kelley, 1950), pp. 266-78. The original edition of the volume appeared in 1922.*

Union Goals

American wage earners have steadily disappointed several generations of Marxians by their refusal to accept the Marxian theory of social development and the Marxian revolutionary goal. In fact, in their thinking, most American wage earners do not start with any general theory of industrial society, but approach the subject as bargainers, desiring to strike the best wage bargain possible. They also have a conception of what the bargain ought to yield them by way of real income, measured in terms of their customary standard of living, in terms of security for the future, and in terms of freedom in the shop or "self-determination." What impresses them is not so much the fact that the employer owns the employment opportunities but that he possesses a high degree of bargaining advantage over them. Viewing the situation as bargainers, they are forced to give their best attention to the menaces they encounter as bargainers, namely, to the competitive menaces; for on these the employer's own advantage as a bargainer rests. Their impulse is therefore not to suppress the employer, but to suppress those competitive menaces, be they convict labor, foreign labor, "green" or untrained workers working on machines, and so forth. To do so they feel they must organize into a union and engage in a "class struggle" against the employer.

It is the employer's purpose to bring in ever lower and lower levels in competition among laborers and depress wages; it is the purpose of the union to eliminate those lower levels and to make them stay eliminated. That brings the union men face to face with the whole matter of industrial control. They have no assurance that the employer will not get the best of them in bargaining unless they themselves possess enough control over the shop and the trade to check him. Hence they will strive for the "recognition" of the union by the employer or the associated employers as an acknowledged part of the government of the shop and the trade. It is essential to note that in struggling for recognition, labor is struggling not for something absolute, as would be a struggle for a complete dispossession of the employer, but for the sort of an end that admits of relative differences and gradations. Industrial control may be divided in varying proportions,* reflecting at any one time the relative ratio of bargaining power of the contesting sides. It is labor's aim to continue increasing its bargaining power and with it its share of industrial control, just as it is the employer's aim to maintain a *status quo* or better. Although this presupposes a continuous struggle, it is not a revolutionary but an "opportunist" struggle.

Once we accept the view that a broadly conceived aim to control competitive menaces is the key to the conduct of organized labor in America, light is thrown on the causes of the American industrial class struggles. In place of looking for these causes, with the Marxians, in the domain of technique and production, we shall look for them on the market, where all developments which affect labor as a bargainer and competitor, of which technical change is one, are sooner or later bound to register themselves. It will then become possible to account for the long stretch of industrial class struggle in America prior to the factory system, while industry continued on the basis of the handicraft method of production. Also we shall be able to render to ourselves a clearer account of the changes, with time, in the intensity of the struggle, which, were we to follow the Marxian theory, would appear hopelessly irregular.

We shall take for an illustration the shoe industry.† The ease with which shoes can be transported long distances, due to the relatively high money value contained in small bulk, rendered the shoe indus-

* The struggle for control, as carried on by trade unions, centers on such matters as methods of wage determination, the employer's right of discharge, hiring and lay-off, division of work, methods of enforcing shop discipline, introduction of machinery and divison of labor, transfers of employes, promotions, the union or non-union shop, and similar subjects.

† The first trade societies were organized by shoemakers.

try more sensitive to changes in marketing than other industries. Indeed we may say that the shoe industry epitomized the general economic evolution of the country.*

We observe no industrial class struggle during Colonial times when the market remained purely local and the work was custom-order work. The journeyman found his standard of life protected along with the master's own through the latter's ability to strike a favorable bargain with the consumer. This was done by laying stress upon the quality of the work. It was mainly for this reason that during the custom-order stage of industry the journeymen seldom if ever raised a protest because the regulation of the craft, be it through a guild or through an informal organization, lay wholly in the hands of the masters. Moreover, the typical journeyman expected in a few years to set up with an apprentice or two in business for himself—so there was a reasonable harmony of interests.

A change came when improvements in transportation, the highway and later the canal, had widened the area of competition among masters. As a first step, the master began to produce commodities in advance of the demand, laying up a stock of goods for the retail trade. The result was that his bargaining capacity over the consumer was lessened and so prices eventually had to be reduced, and with them also wages. The next step was even more serious. Having succeeded in his retail business, the master began to covet a still larger market—the wholesale market. However, the competition in this wider market was much keener than it had been in the custom-order or even in the retail market. It was inevitable that both prices and wages should suffer in the process. The master, of course, could recoup himself by lowering the quality of the product, but when he did that he lost a telling argument in bargaining with the consumer or the retail merchant. Another result of this new way of conducting the business was that an increased amount of capital was now required for continuous operation, both in raw material and in credits extended to distant buyers.

The next phase in the evolution of the market rendered the separation of the journeymen into a class by themselves even sharper as well as more permanent. The market had grown to such dimensions that only a specialist in marketing and credit could succeed in business, namely, the "merchant-capitalist." The latter now interposed himself permanently between "producer" and consumer and by his control of the market assumed a commanding position. The merchant-capitalist ran his business upon the principle of a large turn-

* See Chapter on "American Shoemakers," in *Labor and Administration*, by John R. Commons (Macmillan, 1913).

over and a small profit per unit of product, which, of course, made his income highly speculative. He was accordingly interested primarily in low production and labor costs. To depress the wage levels he tapped new and cheaper sources of labor supply, in prison labor, low wage country-town labor, woman and child labor; and set them up as competitive menaces to the workers in the trade. The merchant-capitalist system forced still another disadvantage upon the wage earner by splitting up crafts into separate operations and tapping lower levels of skill. In the merchant-capitalist period we find the "team work" and "task" system. The "team" was composed of several workers: a highly skilled journeyman was in charge, but the other members possessed varying degrees of skill down to the practically unskilled "finisher." The team was generally paid a lump wage, which was divided by an understanding among the members. With all that the merchant-capitalist took no appreciable part in the productive process. His equipment consisted of a warehouse where the raw material was cut up and given out to be worked up by small contractors, to be worked up in small shops with a few journeymen and apprentices, or else by the journeyman at his home—all being paid by the piece. This was the notorious "sweatshop system."

The contractor or sweatshop boss was a mere labor broker deriving his income from the margin between the piece rate he received from the merchant-capitalist and the rate he paid in wages. As any workman could easily become a contractor with the aid of small savings out of wages, or with the aid of money advanced by the merchant-capitalist, the competition between contractors was of necessity of the cut-throat kind. The industrial class struggle was now a three-cornered one, the contractor aligning himself here with the journeymen, whom he was forced to exploit, there with the merchant-capitalist, but more often with the latter. Also, owing to the precariousness of the position of both contractor and journeyman, the class struggle now reached a new pitch of intensity hitherto unheard of. It is important to note, however, that as yet the tools of production had not undergone any appreciable change, remaining hand tools as before, and also that the journeyman still owned them. So that the beginning of class struggles had nothing to do with machine technique and a capitalist ownership of the tools of production. The capitalist, however, had placed himself across the outlets to the market and dominated by using all the available competitive menaces to both contractor and wage earner. Hence the bitter class struggle.

The thirties witnessed the beginning of the merchant-capitalist system in the cities of the East. But the situation grew most serious

during the forties and fifties. That was a period of the greatest disorganization of industry. The big underlying cause was the rapid extension of markets outrunning the technical development of industry. The large market, opened first by canals and then by railroads, stimulated the keenest sort of competition among the merchant-capitalists. But the industrial equipment at their disposal had made no considerable progress. Except in the textile industry, machinery had not yet been invented or sufficiently perfected to make its application profitable. Consequently industrial society was in the position of an antiquated public utility in a community which persistently forces ever lower and lower rates. It could continue to render service only by cutting down the returns to the factors of production—by lowering profits, and especially by pressing down wages.

In the sixties the market became a national one as the effect of the consolidation into trunk lines of the numerous and disconnected railway lines built during the forties and fifties. Coincident with the nationalized market for goods, production began to change from a handicraft to a machine basis. The former sweatshop boss having accumulated some capital, or with the aid of credit, now became a small "manufacturer," owning a small plant and employing from ten to fifty workmen. Machinery increased the productivity of labor and gave a considerable margin of profits, which enabled him to begin laying a foundation for his future independence of the middleman. As yet he was, however, far from independent.

The wider areas over which manufactured products were now to be distributed, called more than ever before for the services of the specialist in marketing, namely, the wholesale-jobber. As the market extended, he sent out his traveling men, established business connections, and advertised the articles which bore his trade mark. His control of the market opened up credit with the banks, while the manufacturer, who with the exception of his parents possessed only physical capital and no market opportunities, found it difficult to obtain credit. Moreover, the rapid introduction of machinery tied up all of the manufacturer's available capital and forced him to turn his products into money as rapidly as possible, with the inevitable result that the merchant was given an enormous bargaining advantage over him. Had the extension of the market and the introduction of machinery proceeded at a less rapid pace, the manufacturer probably would have been able to obtain greater control over the market opportunities, and the larger credit which this would have given him, combined with the accumulation of his own capital, might have been sufficient to meet his needs. However, as the situation really devel-

oped, the merchant obtained a superior bargaining power and, by playing off the competing manufacturers one against another, produced a cut-throat competition, low prices, low profits, and consequently a steady and insistent pressure upon wages. This represents the situation in the seventies and eighties.

For labor the combination of cut-throat competition among employers with the new machine technique brought serious consequences. In this era of machinery the forces of technical evolution decisively joined hands with the older forces of marketing evolution to depress the conditions of the wage bargain. It is needless to dilate upon the effects of machine technique on labor conditions—they have become a commonplace of political economy. The shoemakers were first among the organized trades to feel the effects. In the later sixties they organized what was then the largest trade union in the world, the Order of the Knights of St. Crispin,* to ward off the menace of "green hands" set to work on machines. With the machinists and the metal trades in general, the invasion of unskilled and little skilled competitors began a decade later. But the main and general invasion came in the eighties, the proper era from which to date machine production in America. It was during the eighties that we witness an attempted fusion into one organization, the Order of the Knights of Labor, of the machine-menaced mechanics and the hordes of the unskilled.

With the nineties a change comes at last. The manufacturer finally wins his independence. Either he reaches out directly to the ultimate consumer by means of chains of stores or other devices, or else, he makes use of his control over patents and trade marks and thus succeeds in reducing the wholesale-jobber to a position which more nearly resembles that of an agent working on a commission basis than that of the *quondam* industrial ruler. The immediate outcome is, of course, a considerable increase in the manufacturer's margin of profit. The industrial class struggle begins to abate in intensity. The employer, now comparatively free of anxiety that he may be forced to operate at a loss, is able to diminish pressure on wages. But more than this: the greater certainty about the future, now that he is a free agent, enables him to enter into time agreements with a trade union. At first he is generally disinclined to forego any share of his newly acquired freedom by tying himself up with a union. But if the union is strong and can offer battle, then he accepts the situation and "recognizes" it. Thus the class struggle instead of becoming sharper and sharper with the advance of capitalism and leading, as

* See Don D. Lescohier, *The Order of the Knights of St. Crispin.*

Marx predicted, to a social revolution, in reality, grows less and less revolutionary and leads to a compromise or succession of compromises —namely, collective trade agreements.

But the manufacturer's emancipation from the middleman need not always lead to trade agreements. In the shoe industry this process did not do away with competition. In other industries such an emancipation was identical with the coming in of the "trust," or a combination of competing manufacturers into a monopoly. As soon as the "trust" becomes practically the sole employer of labor in an industry, the relations between labor and capital are thrown almost invariably back into the state of affairs which characterized the merchant-capitalist system at its worst, but with one important difference. Whereas under the merchant-capitalist system the employer was *obliged* to press down on wages and fight unionism to death owing to cut-throat competition, the "trust," its strength supreme in both commodity and labor market, can do so and usually does so *of free choice*.

The character of the labor struggle has been influenced by cyclical changes in industry as much as by the permanent changes in the organization of industry and market. In fact, whereas reaction to the latter has generally been slow and noticeable only over long periods of time, with a turn in the business cycle, the labor movement reacted surely and instantaneously.

We observed over the greater part of the history of American labor an alternation of two planes of thought and action, an upper and a lower. On the upper plane, labor thought was concerned with ultimate goals, self-employment or coöperation, and problems arising therefrom, while action took the form of politics. On the lower plane, labor abandoned the ultimate for the proximate, centering on betterments within the limits of the wage system and on trade-union activity. Labor history in the past century was largely a story of labor's shifting from one plane to another, and then again to the first. It was also seen that what determined the plane of thought and action at any one time was the state of business measured by movements of wholesale and retail prices and employment and unemployment. When prices rose and margins of employers' profits were on the increase, the demand for labor increased and accordingly also labor's strength as a bargainer; at the same time, labor was compelled to organize to meet a rising cost of living. At such times trade unionism monopolized the arena, won strikes, increased membership, and forced "cure-alls" and politics into the background. When, however, prices fell and margins of profit contracted, labor's bargaining strength waned, strikes were lost, trade unions faced the danger of

extinction, and "cure-alls" and politics received their day in court. Labor would turn to government and politics only as a last resort, when it had lost confidence in its ability to hold its own in industry. This phenomenon, noticeable also in other countries, came out with particular clearness in America.

For, as a rule, down to the World War, prices both wholesale and retail, fluctuated in America more violently than in England or the Continent. And twice, once in the thirties and again in the sixties, an irredeemable paper currency moved up the water mark of prices to tremendous heights followed by reactions of corresponding depth. From the war of 1812, the actual beginning of an industrial America, to the end of the century, the country went through several such complete industrial and business cycles. We therefore conveniently divide labor and trade union history into periods on the basis of the industrial cycle. It was only in the nineties, as we saw, that the response of the labor movement to price fluctuations ceased to mean a complete or nearly complete abandonment of trade unionism during depressions. A continuous and stable trade union movement consequently dates only from the nineties.

The coöperative movement which was, as we saw, far less continuous than trade unionism, has also shown the effects of the business cycle. The career of distributive coöperation in America has always been intimately related to the movements of retail prices and wages. If, in the advance of wages and prices during the ascending portion of the industrial cycle, the cost of living happened to outdistance wages by a wide margin, the wage earners sought a remedy in distributive coöperation. They acted likewise during the descending portion of the industrial cycle, when retail prices happened to fall much less slowly than wages.

Producers' coöperation in the United States has generally been a "hard times" remedy. When industrial prosperity has passed its high crest and strikes have begun to fail, producers' coöperation has often been used as a retaliatory measure to bring the employer to terms by menacing to underbid him in the market. Also, when in the further downward course of industry the point has been reached where cuts in wages and unemployment have become quite common, producers' coöperation has sometimes come in as an attempt to enable the wage earner to obtain both employment and high earnings bolstered through coöperative profits.